

## AUDITING PROCEDURES REPORT

Issued under P.A.2 of 1968, as amended. Filing is mandatory.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Ferndale, Michigan	County Oakland
Audit Date June 30, 2004	Opinion Date October 1, 2004	Date Accountant Report Submitted to State: December 14, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised,
2. We are certified public accountants registered to practice in Michigan.

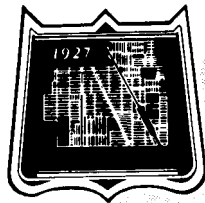
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (PA. 275 of 1980).   |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Rehmann Robson			
Street Address 5750 New King Street, Suite 100	City Troy	State MI	Zip 48098
<div style="text-align: center;"> Accountant Signature Thomas E. Darling, CPA</div>			



*"GOOD  
NEIGHBORS"*

**CITY OF FERNDAL  
MICHIGAN**

**FINANCIAL STATEMENTS  
AND  
SUPPLEMENTARY INFORMATION**

**FOR THE YEAR ENDED  
JUNE 30, 2004**

**CITY OF FERNDALE, MICHIGIAN**  
**Basic Financial Statements and Supplementary Information**  
**For the Year Ended June 30, 2004**

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**CITY OF FERNDALE, MICHIGIAN**  
**Basic Financial Statements and Supplementary Information**  
**For the Year Ended June 30, 2004**

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**REHMANN ROBSON**

*Certified Public Accountants*

*A member of THE REHMANN GROUP*

*An Independent Member of Baker Tilly International*

## **INDEPENDENT AUDITORS' REPORT**

**October 1, 2004**

To the Honorable Mayor and City Council  
City of Ferndale, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the ***City of Ferndale, Michigan***, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the ***City of Ferndale, Michigan's*** management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the ***City of Ferndale, Michigan***, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General, Major Streets, and Sanitation funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2004, on our consideration of the ***City of Ferndale, Michigan's*** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis listed in the table of contents on Pages 3 through 14 and the Schedule of Funding Progress on Pages 55 and 56 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the *City of Ferndale, Michigan's* basic financial statements. The combining and individual nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

***MANAGEMENT'S DISCUSSION  
AND ANALYSIS***

# CITY OF FERNDALE, MICHIGAN

## Management's Discussion and Analysis

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As management of the *City of Ferndale, Michigan*, we offer readers of the City's financial statements this narrative overview and analysis of the City's financial activities for the fiscal year ended June 30, 2004.

### Financial Highlights

- The total net assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$29,879,433. Of this amount, \$19,710,680 is invested in capital assets, \$3,185,393 is restricted for debt service and other purposes, and \$6,983,360 may be used to meet the government's ongoing obligations to its citizens and creditors.
- The City's combined net assets in Primary Government activities increased \$429,572 as a result of this year's operations. Although net assets of our Business-type activities decreased by (\$57,711), net assets of our Governmental activities increased by \$487,283.
- As of the close of the current fiscal year, the City's Governmental funds reported combined fund balances of \$5,803,479, a decrease of (\$7,940) in comparison with the prior year. Approximately 58% of this total amount, or \$3,378,945 is available for spending at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, the unreserved and undesignated fund balance for the General Fund was \$953,816, or 6% of total General Fund expenditures.
- The City's total bonded debt increased by \$499,182 during the current fiscal year.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements** are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).



# CITY OF FERNDALE, MICHIGAN

## Management's Discussion and Analysis

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Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, parks and public grounds, community development, and operation of the Municipal Library and Kulick Community Center. The business-type activities of the City include water distribution and sanitary sewer operations and the municipal parking system.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also a legally separate authority – the Downtown Development Authority – for which the City is financially accountable. Financial information for this *component unit* is reported separately from the financial information presented for the primary government itself.

**Fund financial statements.** A *Fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

1. **Governmental funds** are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains ten individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Major Streets, Sanitation, and Debt Service funds, each of which are considered to be major funds. Data from the six other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* after the *Notes to Financial Statements*.

The City adopts an annual appropriated budget for its general, special revenue, and debt service funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

## CITY OF FERNDALE, MICHIGAN

### Management's Discussion and Analysis

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2. **Proprietary funds** account for activities that operate similar to a business. The City maintains two different types of proprietary funds: enterprise funds and internal service funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer system, which is considered to be a major fund of the City.
  - a) **Enterprise funds** are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for both its water distribution and sanitary sewer operations, and its municipal parking system.
  - b) **Internal service funds** are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its motorized vehicle and general maintenance equipment, and for costs related to workers' compensation, unemployment, and other employment-related costs. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.
3. **Fiduciary funds** are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

**Notes to the financial statements** provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to a schedule concerning the City's progress in funding its obligation to provide pension benefits to its employees and to this Management Discussion and Analysis.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information.

#### **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Ferndale, assets exceeded liabilities by \$29,879,433 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (66%) reflects its investment in capital assets (e.g., land, buildings and improvements, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to residents; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

# CITY OF FERNDALE, MICHIGAN

## Management's Discussion and Analysis

### City of Ferndale's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Current and other assets	\$ 7,895,783	\$ 7,861,379	\$ 4,986,680	\$ 6,119,285	\$ 12,882,463	\$ 13,980,664
Capital assets, net	26,281,823	26,987,801	32,408,477	29,687,363	48,297,206	56,675,164
Total assets	34,177,606	34,849,180	37,395,157	35,806,648	61,179,669	70,655,828
Current liabilities	3,031,311	2,981,766	2,203,822	1,884,423	5,235,133	4,866,189
Noncurrent liabilities	13,721,298	14,929,700	22,736,899	21,410,078	36,458,197	36,339,778
Total liabilities	16,752,609	17,911,466	24,940,721	23,294,501	41,693,330	41,205,967
Net assets:						
Invested in capital assets,						
net of related debt	11,570,589	11,053,818	8,140,091	7,140,908	19,710,680	18,194,726
Restricted assets	3,096,043	665,656	89,350	60,650	3,185,393	726,306
Unrestricted	2,758,365	5,218,240	4,224,995	5,310,589	6,983,360	10,528,829
Total net assets	\$ 17,424,997	\$ 16,937,714	\$ 12,454,436	\$ 12,512,147	\$ 29,879,433	\$ 29,449,861

An additional portion of the City's net assets (11%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* of \$6,983,360 or 23%, may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The City's net assets increased \$429,572 during the current fiscal year. Governmental activities account for an increase of \$487,283, and business-type activities account for a reduction of (\$57,711), a net increase in Primary Government activities of \$429,572.

# CITY OF FERNDALE, MICHIGAN

## Management's Discussion and Analysis

### City of Ferndale's Changes in Net Assets

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
Revenue:						
Program revenues:						
Charges for services	\$ 4,992,314	\$ 4,886,013	\$ 5,257,055	\$ 5,826,824	\$ 10,249,369	\$ 10,712,837
Operating grants and contributions	1,867,604	2,021,633	-	378,162	1,867,604	2,399,795
Capital grants and contributions	1,854,565	1,645,570	35,692	34,578	1,890,257	1,680,148
General revenues:						
Property taxes	13,115,112	12,665,563	-	-	13,115,112	12,665,563
State shared revenue	3,323,312	3,505,565	-	-	3,323,312	3,505,565
Grants and contributions not restricted to specific programs	106,232	145,323	-	-	106,232	145,323
Other	(1,528,404)	(5,945,050)	1,698,088	6,284,830	169,684	339,780
Total revenues	<u>23,730,735</u>	<u>18,924,617</u>	<u>6,990,835</u>	<u>12,524,394</u>	<u>30,721,570</u>	<u>31,449,011</u>
Expenses:						
General government	3,935,967	4,107,989	-	-	3,935,967	4,107,989
Public safety	10,285,677	9,770,110	-	-	10,285,677	9,770,110
Public works	3,259,551	3,592,924	-	-	3,259,551	3,592,924
Highways and streets	3,206,516	3,278,138	-	-	3,206,516	3,278,138
Community and economic development	130,430	132,870	-	-	130,430	132,870
Recreation and culture	1,707,334	1,680,007	-	-	1,707,334	1,680,007
Interest on long-term debt	717,977	1,599,213	-	-	717,977	1,599,213
Water and sewer	-	-	6,820,725	9,017,259	6,820,725	9,017,259
Auto parking	-	-	227,821	233,440	227,821	233,440
Total expenses	<u>23,243,452</u>	<u>24,161,251</u>	<u>7,048,546</u>	<u>9,250,699</u>	<u>30,291,998</u>	<u>33,411,950</u>
Increase (decrease) in net ass	487,283	(5,236,634)	(57,711)	3,273,695	429,572	(1,962,939)
Net assets-beginning	<u>16,937,714</u>	<u>22,174,348</u>	<u>12,512,147</u>	<u>9,238,452</u>	<u>29,449,861</u>	<u>31,412,800</u>
Net assets-ending	<u>\$ 17,424,997</u>	<u>\$ 16,937,714</u>	<u>\$ 12,454,436</u>	<u>\$12,512,147</u>	<u>\$ 29,879,433</u>	<u>\$ 29,449,861</u>

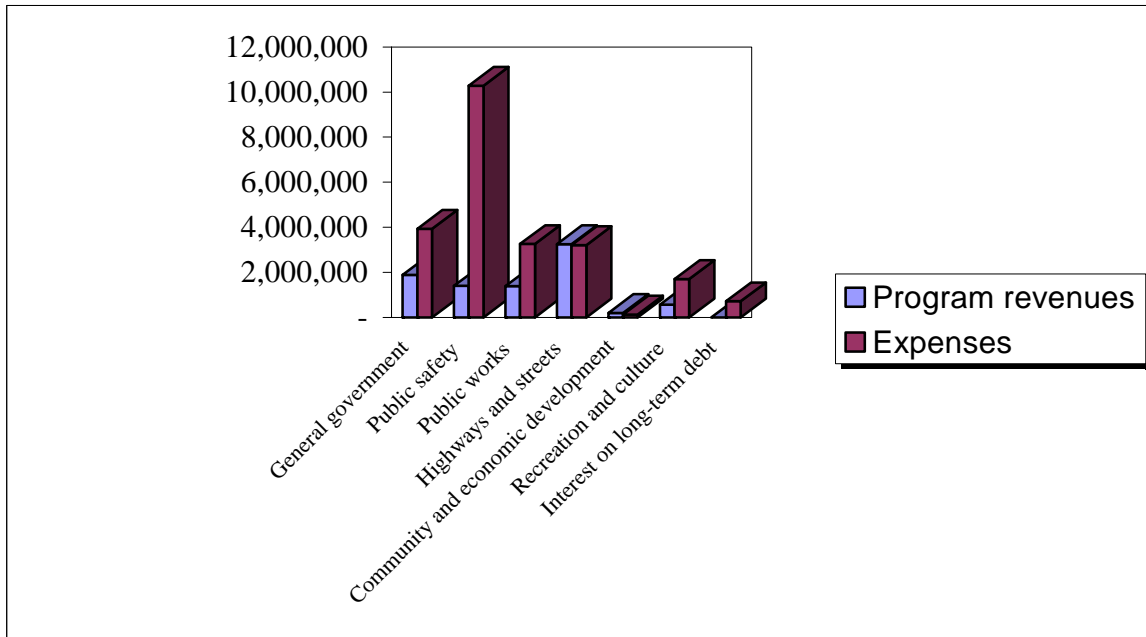
**Governmental activities** increased the City's net assets by \$487,283. Key elements of this change are as follows:

- An increase of property taxes of \$449,000 due to inflationary increases in valuations, new constructions, and housing sales and transfers which uncap individual taxable values.
- A reduction of state-shared revenues of \$183,000 and a reduction of other revenues, offset by a planned reduction in services through staffing reductions.

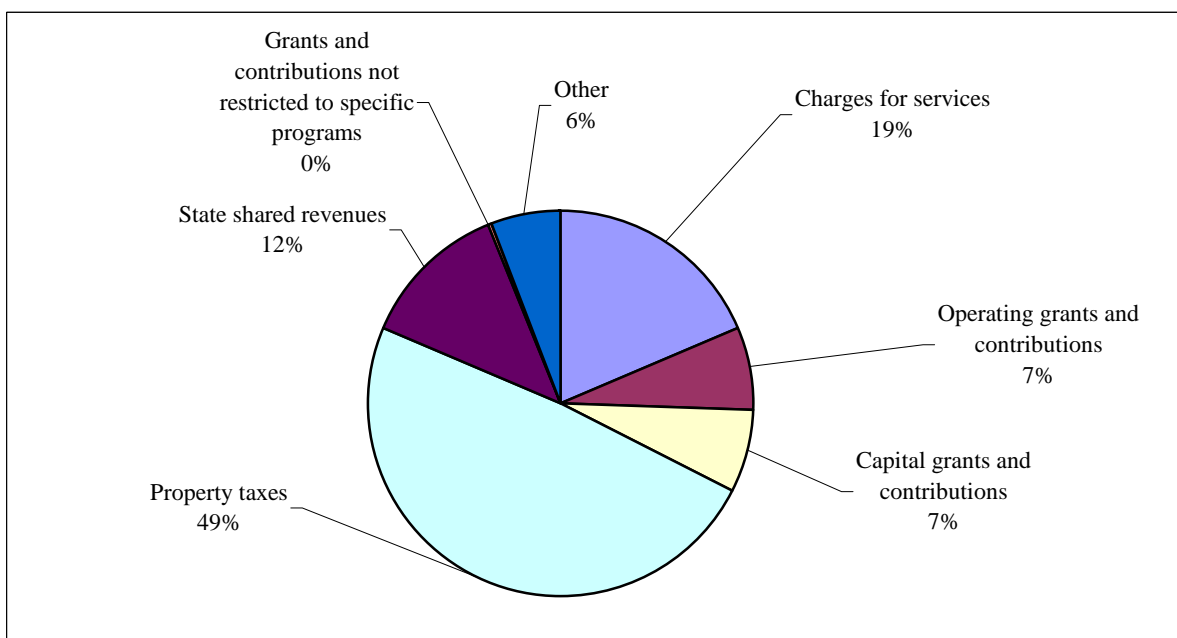
# CITY OF FERNDALE, MICHIGAN

## Management's Discussion and Analysis

### Expenses and Program Revenues – Governmental Activities



### Revenues by Source – Governmental Activities



# CITY OF FERNDALE, MICHIGAN

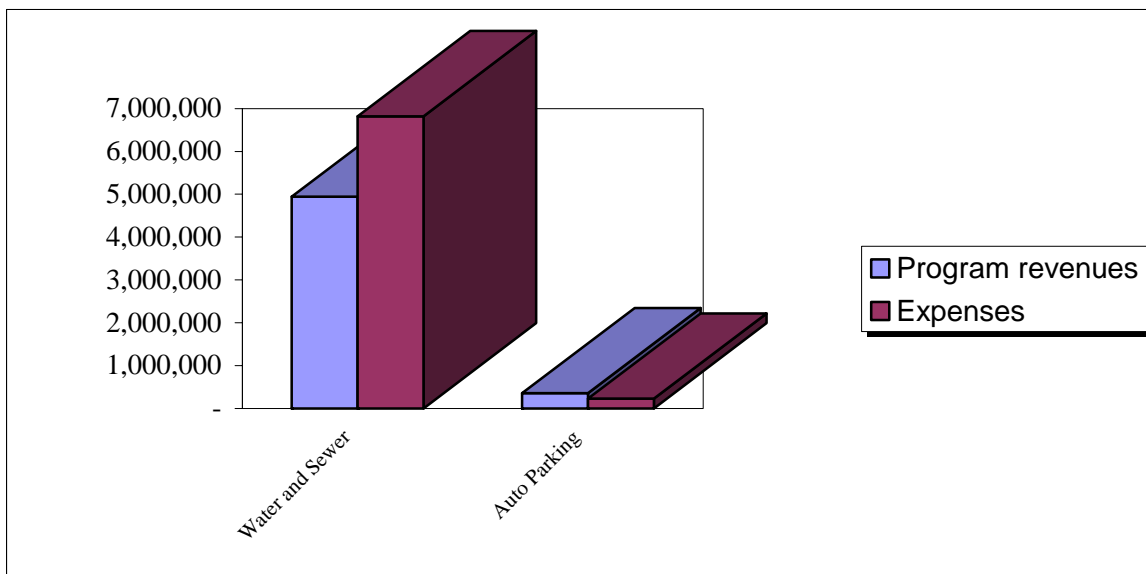
## Management's Discussion and Analysis

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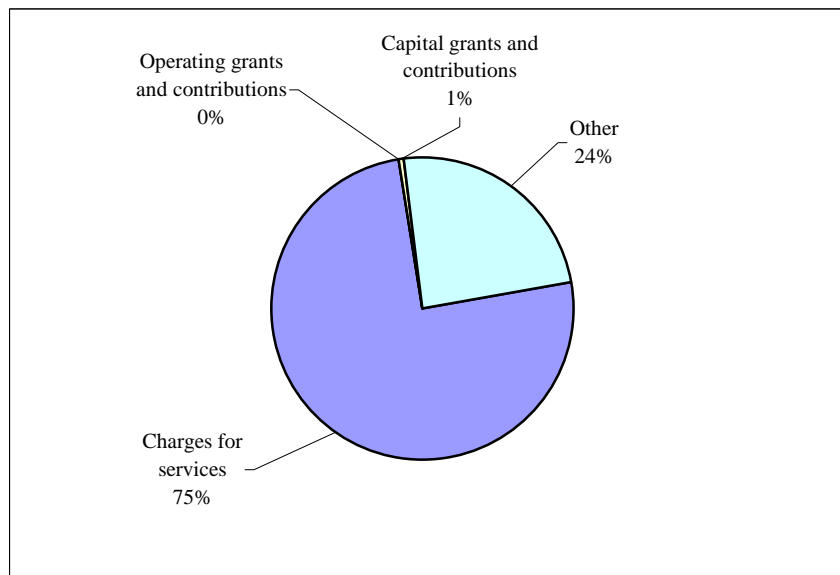
**Business-type Activities.** Business-type activities decreased the City's net assets by (\$57,711), accounting for the offset to the City's total increase in net assets. The key element of this decrease is as follows:

- A reduction in anticipated water/sewer sales by \$657,000, mostly offset by other revenue increases and a reduction in planned expenditures.
- 

### Expenses and Program Revenues - Business-Type Activities



### Revenues by Source – Business-Type Activities



# CITY OF FERNDALE, MICHIGAN

## Management's Discussion and Analysis

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### Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$5,803,479, a decrease of (\$7,940) in comparison with the prior year. Approximately 58% of this total amount \$3,378,945 constitutes *unreserved, undesignated fund balance*, which is available for spending at the government's discretion. Another 30%, \$1,714,701 is *unreserved, designated*. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed to other purposes.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, *unreserved* fund balance of the general fund was \$953,816, while total fund balance was \$2,835,417. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 6% of total general fund expenditures, while total fund balance represents 17% of the same amount.

The fund balance of the City's general fund decreased by (\$319,180) during the current fiscal year. This is primarily attributable to a reduction in the statutory distribution of state shared revenues, as previously noted, an improvement from the interim forecast which projected reducing the fund balance by about (\$737,000). Relatively minor changes to revenue and expense produced the improvement to the budgeted General Fund balance. Notable changes increasing the expected balance include the following:

1. District Court revenues increased a net of \$41,000 from interim projections. Although District Court revenues reflect an increase of \$167,000 from budget, \$126,000 was reserved for future building renovations. District Court expenditures were below projections by \$52,000.
2. The City received higher than expected distribution of franchise and PEG fees from its cable providers and a settlement of 1998 franchise fees, totaling \$26,000.
3. An improvement in invoicing and collection services, on top of changes to the fee structure, increased ambulance billings from projections by \$61,000.
4. The City received a reinsurance reimbursement from the Michigan Municipal Risk Management Authority risk pool for an outstanding claim, reducing the liability expense by \$135,000 from projections.
5. The contingency fund for \$75,000 went undistributed for the year, adding to fund balance.

## CITY OF FERNDALE, MICHIGAN

### Management's Discussion and Analysis

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The major streets fund accounts for activities, maintenance and capital improvements of the City's major streets. Unreserved and total fund balance was \$620,143 as of year-end. The fund balance increased by \$358,063 during the year. The increase is mainly attributable to the State picking up the City's portion of street reconstruction costs to resurface Woodward Avenue between 8 and 9 Mile Roads. Since the population in Ferndale has slipped below 25,000, it no longer has to fund Federal road construction grants with matching funds. The amount provided by the State amounted to \$384,000 in 2004.

The sanitation fund has a fund balance of \$560,720, an increase of \$21,436. Original projections anticipated increasing the fund balance by \$82,000. However, unexpected repair and maintenance costs of \$19,000, and increased use of vehicles and equipment from the Motor Pool by over \$46,000, reduced the increase to fund balance.

The debt service fund has a total fund balance of \$542,933, all of which is reserved for the payment of debt service. The decrease of (\$72,780) was approximately the planned use of fund balance.

**Proprietary funds.** The City's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail.

Unrestricted net assets of the Water and Sewer Fund at the end of the year amounted to \$3,460,641. The decrease in net assets for the fund was (\$124,101). Over the past several years, the fund balance of the Water and Sewer Fund was allowed to build up in order to address the continuing maintenance costs of an aging system.

#### **General Fund Budgetary Highlights**

Differences between the original budget and the final amended budget were relatively minor. The increase in budgeted revenues of \$112,693 and increase in budgeted expenditures of \$192,748 can be briefly summarized as follows:

##### **Major Revenue items:**

- a) Reduction in State Shared Revenue proceeds of \$200,000 - based on State projections of reductions in statutory distributions, as discussed earlier.
- b) Marginal interest earnings on invested balances, estimated at \$150,000 for 2004 - ½ of the original budgeted figure of \$300,000.
- c) Expectation that a portion of the vacant lots approved for sale by the voters would be initiated by the end of the fiscal year, resulting in deposits of over \$70,000.
- d) Receipt of a second installment on the SOCCRA refund, estimated at \$99,000.

##### **Major Expenditure items:**

- e) Liability Insurance – claim amounts resulting in higher estimated co-payments by the City of approximately \$116,000.
- f) Increased Medicare and Health care coverage costs by approximately \$120,000.



# CITY OF FERNDALE, MICHIGAN

## Management's Discussion and Analysis

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### Capital Asset and Debt Administration

**Capital assets.** The City's investment in capital assets for its governmental and business-type activities as of June 30, 2004, amounted to \$58,690,300 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, vehicles, and roads, highways, and other infrastructure. The total increase in the City's investment in capital assets for the current fiscal year was \$2,015,136 or 4% which represents a decrease in governmental activities of (\$705,978) or -3%, and an increase in business-type activities of \$2,721,114 or 9%.

Major capital asset events during the current fiscal year included the following:

- Reconstruction of Woodward Avenue between 8 and 9 Mile Roads, including surface and curb work, in excess of \$1.7M. In addition, a portion of the water main along this section of Woodward was replaced, in the amount of \$866,000.
- Additional main and gate valve work occurred throughout the City - at Wanda and Silman, Bennett and Fair, Bermuda and Oakridge, Vester and Rosewood, and Albany between Woodward and Allen - for the total of \$255,000.
- A study of the City's pump station was undertaken by the engineering consulting firm Hubbell Roth, at a cost of \$102,000, to determine the future capital cost of renovating the pump station and increasing water pressures in the City.
- Work continued on the George W. Kuhn Drain project, financed by the Twelve Towns Drains District. Ferndale's portion of work-in-progress for 2004 was approximately \$2.8M.
- Renovation of the Gerry Kulick Community Center roof was completed for \$96,000.
- Video recording equipment was added to the 43<sup>rd</sup> District Court to electronically record Court proceedings, in the amount of \$61,000. The cost of this change was offset by the staff reduction of one full-time court recorder.
- The addition of Police and Fire equipment, \$26,000 and \$33,000 respectively, obtained through a Local Law Enforcement Block grant and a Federal Emergency Management Agency grant.
- Books added to the Municipal Library collection totaled almost \$36,000.

# CITY OF FERNDALE, MICHIGAN

## Management's Discussion and Analysis

### City of Ferndale's Capital Assets (net of depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land	\$ 637,878	\$ 637,878	\$ 454,903	\$ 454,903	\$ 1,092,781	\$ 1,092,781
Construction in progress	-	-	9,300,313	6,493,781	9,300,313	6,493,781
Buildings	3,198,658	2,782,234	99,390	74,217	3,298,048	2,856,451
Equipment	1,519,697	2,128,152	165,309	214,367	1,685,006	2,342,519
Vehicles	458,023	564,040	275,491	309,928	733,514	873,968
Infrastructure	20,467,567	20,875,497	22,113,071	22,140,167	42,580,638	43,015,664
Total	<u>\$ 26,281,823</u>	<u>\$ 26,987,801</u>	<u>\$ 32,408,477</u>	<u>\$ 29,687,363</u>	<u>\$ 58,690,300</u>	<u>\$ 56,675,164</u>

**Long-term debt.** At the end of the current fiscal year, the City had total debt outstanding of \$38,979,620, backed by the full faith and credit of the government. Its purpose is attributable to both governmental (\$14,711,234) and business-type activities (\$24,268,386.)

### City of Ferndale's Outstanding Debt

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Series III and IV GO bonds	\$ 5,835,139	\$ 6,244,622	\$ 5,564,862	\$ 5,955,378	\$ 11,400,001	\$ 12,200,000
2003 refunding bonds	8,611,952	9,282,481	8,213,048	8,852,519	16,825,000	18,135,000
Premium on refunding	189,143	204,907	180,383	195,415	369,526	400,322
Parks improvement bonds	75,000	150,000	-	-	75,000	150,000
MDOT traffic improvement bond	-	51,973	-	-	-	51,973
GW Kuhn drain project	-	-	10,310,093	7,543,143	10,310,093	7,543,143
	<u>\$ 14,711,234</u>	<u>\$ 15,933,983</u>	<u>\$ 24,268,386</u>	<u>\$ 22,546,455</u>	<u>\$ 38,979,620</u>	<u>\$ 38,480,438</u>

Additional debt of \$2,858,308, related to the George W. Kuhn drain project was incurred during the fiscal year ended June 30, 2004. Total obligation debt decreased by \$(2,328,331) due to payments on principal by the City and amortization of bond premiums of \$(30,796) during the year.

# **CITY OF FERNDALE, MICHIGAN**

## **Management's Discussion and Analysis**

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### **Economic Factors and Next Year's Budgets and Rates**

The following factors were considered in preparing the City's budget for the 2004-05 fiscal year:

- The continued uncertainty over the amount the State is willing to continue distributing to municipalities for statutory revenue sharing.
- The increase in health care costs – at rates that far outstrip normal inflationary increases. Although for budget purposes, the cost of health care was projected to increase 10% for 2005, the actual increase to health care coverage in 2004 exceeded 24%.

### **Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, 300 East Nine Mile Road, Ferndale, Michigan 48220.

***BASIC FINANCIAL  
STATEMENTS***

# CITY OF FERNDALE, MICHIGAN

## Statement of Net Assets

June 30, 2004

	Governmental Activities	Business-type Activities	Total	Component Unit Downtown Development Authority
<b>Assets</b>				
Cash and cash equivalents	\$ 6,606,140	\$ 1,333,292	\$ 7,939,432	\$ -
Receivables (net)	1,389,713	3,235,968	4,625,681	9,888
Internal balances	(409,311)	409,311	-	-
Due from component unit	8,953	-	8,953	-
Due from primary government	-	-	-	4,458
Inventory	148,638	8,109	156,747	-
Prepaid items and other assets	23,669	-	23,669	-
Temporarily restricted assets:				
Cash and cash equivalents	127,981	-	127,981	-
Non-depreciable capital assets	637,878	9,755,216	10,393,094	-
Depreciable capital assets, net	25,643,945	22,653,261	48,297,206	744,761
<b>Total assets</b>	<b>34,177,606</b>	<b>37,395,157</b>	<b>71,572,763</b>	<b>759,107</b>
<b>Liabilities</b>				
Accounts payable	849,983	640,788	1,490,771	60,713
Due to component unit	4,458	-	4,458	-
Due to primary government	-	-	-	8,953
Accrued liabilities	859,089	31,547	890,636	1,880
Unearned revenue	47,861	-	47,861	-
Noncurrent liabilities:				
Due within one year	1,231,255	1,531,487	2,762,742	-
Due in more than one year	13,759,963	22,736,899	36,496,862	-
<b>Total liabilities</b>	<b>16,752,609</b>	<b>24,940,721</b>	<b>41,693,330</b>	<b>71,546</b>
<b>Net assets</b>				
Invested in capital assets, net of related debt	11,570,589	8,140,091	19,710,680	744,761
Restricted for:				
Highways and streets	879,320	-	879,320	-
Public safety	169,994	-	169,994	-
Public works	560,720	-	560,720	-
Community and economic development	815,095	-	815,095	-
Debt service	542,933	-	542,933	-
Other purposes	127,981	89,350	217,331	-
Unrestricted	2,758,365	4,224,995	6,983,360	(57,200)
<b>Total net assets</b>	<b>\$ 17,424,997</b>	<b>\$ 12,454,436</b>	<b>\$ 29,879,433</b>	<b>\$ 687,561</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF FERNDAL, MICHIGAN**  
**Statement of Activities**  
**For the Year Ended June 30, 2004**

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental activities:					
General government	\$ 3,935,967	\$ 1,800,415	\$ 92,768	\$ -	\$ (2,042,784)
Public safety	10,285,677	1,235,933	164,253	-	(8,885,491)
Public works	3,259,551	1,393,373	-	-	(1,866,178)
Highways and streets	3,206,516	91,876	1,311,650	1,854,565	51,575
development	130,430	6,803	195,401	-	71,774
Recreation and culture	1,707,334	463,914	103,532	-	(1,139,888)
Interest on long-term debt	717,977	-	-	-	(717,977)
Total governmental activities	23,243,452	4,992,314	1,867,604	1,854,565	(14,528,969)
Business-type activities:					
Water and sewer	6,820,725	4,941,157	-	-	(1,879,568)
Auto parking	227,821	315,898	-	35,692	123,769
Total business-type activities	7,048,546	5,257,055	-	35,692	(1,755,799)
Total primary government	\$ 30,291,998	\$ 10,249,369	\$ 1,867,604	\$ 1,890,257	\$ (16,284,768)
Component unit:					
Downtown Development Authority	\$ 500,288	\$ 9,384	\$ 13,965	\$ -	\$ (476,939)

continued...

The accompanying notes are an integral part of these financial statements.

**CITY OF FERNDALE, MICHIGAN**  
**Statement of Activities (Concluded)**  
**For the Year Ended June 30, 2004**

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Downtown Development Authority
<b>Changes in net assets</b>				
Net (expense) revenue	\$ (14,528,969)	\$ (1,755,799)	\$ (16,284,768)	\$ (476,939)
General revenues:				
Property taxes	13,115,112	-	13,115,112	347,267
State shared revenue	3,323,312	-	3,323,312	-
Grants and contributions not restricted to specific programs	106,232	-	106,232	-
Unrestricted investment earnings	101,601	35,451	137,052	676
Gain on sale of capital assets	32,632	-	32,632	-
Transfers - internal activities	(1,662,637)	1,662,637	-	-
Total general revenues and transfers	15,016,252	1,698,088	16,714,340	347,943
Change in net assets	487,283	(57,711)	429,572	(128,996)
Net assets, beginning of year	16,937,714	12,512,147	29,449,861	816,557
<b>Net assets, end of year</b>	<u>\$ 17,424,997</u>	<u>\$ 12,454,436</u>	<u>\$ 29,879,433</u>	<u>\$ 687,561</u>

The accompanying notes are an integral part of these financial statements.

# CITY OF FERNDALE, MICHIGAN

## Balance Sheet Governmental Funds June 30, 2004

	General	Major Streets	Sanitation	Debt Service	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>						
Cash and cash equivalents	\$ 2,973,304	\$ 480,594	\$ 692,559	\$ 542,933	\$ 1,194,005	\$ 5,883,395
Inventory	2,943	-	-	-	-	2,943
Receivables:						
Accounts receivable	520,642	-	-	-	-	520,642
Taxes-delinquent	131,380	-	19,706	57,724	-	208,810
Less: allowance for doubtful accounts	(95,173)	-	(14,275)	(41,770)	-	(151,218)
Interest and dividends	6,121	-	-	-	-	6,121
Due from other funds	31,683	-	-	-	-	31,683
Due from other governments	456,330	240,102	-	-	108,783	805,215
Restricted cash and cash equivalents	127,981	-	-	-	-	127,981
Prepaid expenditures	7,669	-	-	-	-	7,669
<b>Total assets</b>	<u>\$ 4,171,833</u>	<u>\$ 720,696</u>	<u>\$ 697,990</u>	<u>\$ 558,887</u>	<u>\$ 1,302,788</u>	<u>\$ 7,452,194</u>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities:</b>						
Accounts payable	\$ 419,362	\$ 93,119	\$ 124,657	\$ -	\$ 18,997	\$ 656,135
Accrued liabilities	832,986	7,434	7,182	-	7,842	855,444
Due to other funds	-	-	-	-	31,683	31,683
Deferred revenue	84,068	-	5,431	15,954	-	105,453
<b>Total liabilities</b>	<u>1,336,416</u>	<u>100,553</u>	<u>137,270</u>	<u>15,954</u>	<u>58,522</u>	<u>1,648,715</u>
<b>Fund balances:</b>						
Reserved for:						
Debt service	-	-	-	542,933	-	542,933
Inventory	2,943	-	-	-	-	2,943
Prepays and deposits	135,650	-	-	-	-	135,650
Other purposes	28,307	-	-	-	-	28,307
Unreserved, designated	1,714,701	-	-	-	-	1,714,701
Unreserved, undesignated for:						
General fund	953,816	-	-	-	-	953,816
Special revenue funds	-	620,143	560,720	-	1,244,266	2,425,129
<b>Total fund balances</b>	<u>2,835,417</u>	<u>620,143</u>	<u>560,720</u>	<u>542,933</u>	<u>1,244,266</u>	<u>5,803,479</u>
<b>Total liabilities and fund balances</b>	<u>\$ 4,171,833</u>	<u>\$ 720,696</u>	<u>\$ 697,990</u>	<u>\$ 558,887</u>	<u>\$ 1,302,788</u>	<u>\$ 7,452,194</u>

The accompanying notes are an integral part of these financial statements.



**CITY OF FERNDALE, MICHIGAN**  
**Reconciliation of Fund Balances on the Balance Sheet**  
**for Governmental Funds to Net Assets of**  
**Governmental Activities on the Statement of Net Assets**  
**June 30, 2004**

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Fund balances - total governmental funds	\$ 5,803,479
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets	47,067,776
Deduct: accumulated depreciation	(22,205,779)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add: deferred revenues	57,592
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An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

Add: net assets of governmental activities accounted for in the internal service fund	1,693,147
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Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct: bonds payable	(14,711,234)
Deduct: compensated absences	(279,984)

Net assets of governmental activities	<u>\$ 17,424,997</u>
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The accompanying notes are an integral part of these financial statements.

**CITY OF FERNDALE, MICHIGAN**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2004**

	<b>General</b>	<b>Major Streets</b>	<b>Sanitation</b>	<b>Debt Service</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Revenues</b>						
Property taxes	\$ 8,412,950	\$ -	\$ -	\$ 3,510,025	\$ -	\$ 11,922,975
Licenses and permits	375,553	-	-	-	-	375,553
Intergovernmental	3,970,635	2,894,055	2,126,690	-	596,439	9,587,819
Charges for services	1,186,423	-	-	-	5,788	1,192,211
Fines and forfeitures	1,495,829	-	-	-	135,972	1,631,801
Investment earnings	82,079	2,479	3,344	4,254	9,445	101,601
Other	541,584	-	1,460	-	1,015	544,059
Total revenues	<u>16,065,053</u>	<u>2,896,534</u>	<u>2,131,494</u>	<u>3,514,279</u>	<u>748,659</u>	<u>25,356,019</u>
<b>Expenditures</b>						
Current:						
General government	2,813,756	-	-	-	66,685	2,880,441
Public safety	10,061,360	-	-	-	21,807	10,083,167
Public works	955,708	-	2,090,058	-	-	3,045,766
Highways and streets	-	2,484,418	-	-	481,859	2,966,277
Community and economic development	-	-	-	-	157,476	157,476
Recreation and culture	1,524,882	-	-	-	-	1,524,882
Other functions	967,713	-	-	-	-	967,713
Debt service						
Principal	-	51,974	-	1,155,014	-	1,206,988
Interest and fees	-	2,079	-	722,023	-	724,102
Capital Outlay	177,142	-	-	-	-	177,142
Total expenditures	<u>16,500,561</u>	<u>2,538,471</u>	<u>2,090,058</u>	<u>1,877,037</u>	<u>727,827</u>	<u>23,733,954</u>
Revenues over (under) expenditures	<u>(435,508)</u>	<u>358,063</u>	<u>41,436</u>	<u>1,637,242</u>	<u>20,832</u>	<u>1,622,065</u>
<b>Other financing sources (uses)</b>						
Transfers in	283,696	-	-	-	200,000	483,696
Transfers out	(200,000)	-	(20,000)	(1,710,022)	(216,311)	(2,146,333)
Proceeds from sale of capital assets	32,632	-	-	-	-	32,632
Total other financing sources (uses)	<u>116,328</u>	<u>-</u>	<u>(20,000)</u>	<u>(1,710,022)</u>	<u>(16,311)</u>	<u>(1,630,005)</u>
Net change in fund balances	(319,180)	358,063	21,436	(72,780)	4,521	(7,940)
Fund balances, beginning of year	<u>3,154,597</u>	<u>262,080</u>	<u>539,284</u>	<u>615,713</u>	<u>1,239,745</u>	<u>5,811,419</u>
<b>Fund balances, end of year</b>	<u>\$ 2,835,417</u>	<u>\$ 620,143</u>	<u>\$ 560,720</u>	<u>\$ 542,933</u>	<u>\$ 1,244,266</u>	<u>\$ 5,803,479</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF FERNDALE, MICHIGAN**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Change in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**For the Year Ended June 30, 2004**

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Net change in fund balances - total governmental funds	\$	(7,940)
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay		2,049,712
Deduct: depreciation expense		(2,636,942)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

Deduct: net difference deferred revenue		4,721
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Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: principal payments on long-term liabilities		1,206,985
Add: amortization of bond premiums		15,763

An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. The net revenue (expense) of the fund attributable to those funds is reported with governmental activities.

Deduct: net operating loss from governmental activities in the internal service fund		(130,039)
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct: increase in the accrual for compensated absences		(14,977)
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Change in net assets of governmental activities	\$	487,283
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The accompanying notes are an integral part of these financial statements.

**CITY OF FERNDALE, MICHIGAN**  
**Statement of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget and Actual**  
**General Fund**  
**For the Year Ended June 30, 2004**

	<b>Budgeted Amounts</b>			<b>Actual Over (Under) Final Budget</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	
<b>Revenues</b>				
Property taxes	\$ 8,410,847	\$ 8,386,285	\$ 8,412,950	\$ 26,665
Licenses and permits	411,500	411,500	375,553	(35,947)
Intergovernmental:				
Federal grants	104,305	173,960	133,722	(40,238)
State grants	67,350	67,350	88,450	21,100
State shared revenue	3,313,258	3,313,258	3,323,312	10,054
Local reimbursements	409,279	409,279	425,151	15,872
Charges for services	1,206,427	1,252,027	1,186,423	(65,604)
Fines and forfeitures	1,341,600	1,341,600	1,495,829	154,229
Investment earnings	153,000	153,000	82,079	(70,921)
Other	408,017	430,017	541,584	111,567
Total revenues	<u>15,825,583</u>	<u>15,938,276</u>	<u>16,065,053</u>	<u>126,777</u>
<b>Expenditures</b>				
General government:				
Council	25,850	17,850	19,960	2,110
District court	1,201,537	1,220,537	1,174,396	(46,141)
Manager	282,314	299,224	300,129	905
Finance	253,670	269,398	277,821	8,423
Clerk	237,377	238,246	241,517	3,271
Assessor/Treasurer	332,961	331,244	375,062	43,818
Elections	39,890	26,890	20,573	(6,317)
Attorney	320,000	320,000	324,595	4,595
Cable television	96,216	87,063	79,703	(7,360)
Total general government	<u>2,789,815</u>	<u>2,810,452</u>	<u>2,813,756</u>	<u>3,304</u>
Public safety:				
Police	5,627,655	5,874,313	5,900,484	26,171
Fire	3,293,011	3,433,991	3,475,882	41,891
Inspection	615,183	634,131	604,874	(29,257)
Animal control and shelter	76,729	79,980	80,120	140
Total public safety	<u>9,612,578</u>	<u>10,022,415</u>	<u>10,061,360</u>	<u>38,945</u>

Continued.....

**CITY OF FERNDALE, MICHIGAN**  
**Statement of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget and Actual**  
**General Fund**  
**For the Year Ended June 30, 2004**

	<b>Budgeted Amounts</b>			<b>Actual Over (Under) Final Budget</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	
Concluded.....				
Public works:				
Department of public works	\$ 588,039	\$ 551,613	\$ 565,696	\$ 14,083
Refuse and weed control	45,372	45,372	38,249	(7,123)
Sidewalk program	437,000	437,000	351,763	(85,237)
Total public works	1,070,411	1,033,985	955,708	(78,277)
Recreation and culture:				
Recreation department	199,204	196,889	162,440	(34,449)
Library	490,307	492,305	484,685	(7,620)
Dream cruise car show	124,461	124,461	133,878	9,417
Kulick Community Center	663,787	682,788	686,443	3,655
Martin Road Youth Center	57,378	43,894	57,436	13,542
Total recreation and culture	1,535,137	1,540,337	1,524,882	(15,455)
Other functions:				
Liability insurance	584,000	539,000	404,499	(134,501)
Utilities	477,200	477,200	491,784	14,584
Other	231,500	106,500	71,430	(35,070)
Total other functions	1,292,700	1,122,700	967,713	(154,987)
Capital Outlay	321,156	284,656	177,142	(107,514)
Total expenditures	16,621,797	16,814,545	16,500,561	(313,984)
Revenues over (under) expenditures	(796,214)	(876,269)	(435,508)	440,761
<b>Other financing sources (uses)</b>				
Transfers in	303,819	303,819	283,696	20,123
Transfers out	(250,000)	(200,000)	(200,000)	-
Proceeds from sale of capital assets	106,750	35,750	32,632	3,118
Total other financing (uses)	160,569	139,569	116,328	23,241
Net change in fund balances	(635,645)	(736,700)	(319,180)	417,520
Fund balance, beginning of year, as restated	3,154,597	3,154,597	3,154,597	-
<b>Fund balance, end of year</b>	<b>\$ 2,518,952</b>	<b>\$ 2,417,897</b>	<b>\$ 2,835,417</b>	<b>\$ 417,520</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF FERNDALE, MICHIGAN**  
**Statement of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget and Actual**  
**Major Streets**  
**For the Year Ended June 30, 2004**

	<b>Budgeted Amounts</b>			<b>Actual Over (Under) Final Budget</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	
<b>Revenues</b>				
Federal grants	\$ -	\$ -	\$1,413,531	\$ 1,413,531
State shared revenue	1,068,889	1,068,889	1,478,899	410,010
Local grants	-	-	1,625	1,625
Investment earnings	-	-	2,479	2,479
Total revenues	1,068,889	1,068,889	2,896,534	1,827,645
<b>Expenditures</b>				
Construction	81,374	81,374	1,777,046	1,695,672
Routine maintenance	639,647	658,962	600,874	(58,088)
Winter maintenance	42,400	42,400	62,213	19,813
Traffic service	700	700	44,285	43,585
Debt service:				
Principal	54,052	54,052	51,974	(2,078)
Interest	-	-	2,079	2,079
Total expenditures	818,173	837,488	2,538,471	1,700,983
Net change in fund balances	250,716	231,401	358,063	126,662
Fund balance, beginning of year	262,080	262,080	262,080	-
<b>Fund balance, end of year</b>	<b>\$ 512,796</b>	<b>\$ 493,481</b>	<b>\$ 620,143</b>	<b>\$ 126,662</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF FERNDALE, MICHIGAN**  
**Statement of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget and Actual**  
**Sanitation Fund**  
**For the Year Ended June 30, 2004**

	<b>Budgeted Amounts</b>			<b>Actual</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>Over (Under) Final Budget</b>
<b>Revenues</b>				
Property taxes	\$ 1,181,139	\$ 1,181,139	\$ 1,187,416	\$ 6,277
Charges for services	938,157	938,157	939,274	1,117
Investment earnings	12,000	12,000	3,344	(8,656)
Other	1,700	1,700	1,460	(240)
Total revenues	<u>2,132,996</u>	<u>2,132,996</u>	<u>2,131,494</u>	<u>(1,502)</u>
<b>Expenditures</b>				
Operating	1,773,367	1,773,367	1,834,991	61,624
Personal	<u>247,013</u>	<u>257,903</u>	<u>255,067</u>	<u>(2,836)</u>
Total expenditures	<u>2,020,380</u>	<u>2,031,270</u>	<u>2,090,058</u>	<u>58,788</u>
Revenues over (under) expenditures	112,616	101,726	41,436	(60,290)
<b>Other financing sources (uses)</b>				
Transfers out	<u>(20,000)</u>	<u>(20,000)</u>	<u>(20,000)</u>	<u>-</u>
Net change in fund balances	92,616	81,726	21,436	(60,290)
Fund balance, beginning of year	<u>539,284</u>	<u>539,284</u>	<u>539,284</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u>\$ 631,900</u>	<u>\$ 621,010</u>	<u>\$ 560,720</u>	<u>\$ (60,290)</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF FERNDAL, MICHIGAN**  
**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2004**

	<b>Business-type Activities - Enterprise Funds</b>			<b>Governmental Activities</b>
	<b>Major Fund</b>	<b>Non-Major Fund</b>		
	<b>Water/ Sewer</b>	<b>Auto Parking</b>	<b>Total</b>	<b>Internal Service Funds</b>
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 886,847	\$ 446,445	\$ 1,333,292	\$ 722,745
Accounts receivable	1,496,605	4,380	1,500,985	143
Intergovernmental receivable	1,734,983	-	1,734,983	-
Inventories	8,109	-	8,109	145,695
Prepaid expenses	-	-	-	16,000
Total current assets	4,126,544	450,825	4,577,369	884,583
Noncurrent assets:				
Capital assets	41,994,885	1,077,838	43,072,723	4,966,257
Less accumulated depreciation	(10,223,372)	(440,874)	(10,664,246)	(3,546,431)
Total noncurrent assets	31,771,513	636,964	32,408,477	1,419,826
Total assets	35,898,057	1,087,789	36,985,846	2,304,409
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	636,786	4,002	640,788	193,848
Accrued liabilities	28,462	2,430	30,892	3,645
Customer deposits	655	-	655	-
Current portion of long-term debt	1,531,487	-	1,531,487	-
Total current liabilities	2,197,390	6,432	2,203,822	197,493
Noncurrent liabilities:				
Long term debt	22,736,899	-	22,736,899	-
Total liabilities	24,934,289	6,432	24,940,721	197,493
<b>Net Assets</b>				
Investment in capital assets, net of related debt	7,503,127	636,964	8,140,091	1,419,826
Restricted	-	89,350	89,350	-
Unrestricted	3,460,641	355,043	3,815,684	687,090
Total net assets	\$ 10,963,768	\$ 1,081,357	12,045,125	\$ 2,106,916
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			409,311	
Net assets of business type activities			\$ 12,454,436	

The accompanying notes are an integral part of these financial statements.



**CITY OF FERNDAL, MICHIGAN**  
**Statement of Revenues, Expenses**  
**and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Year Ended June 30, 2004**

	<b>Business-type Activities - Enterprise Funds</b>			<b>Governmental Activities</b>
	<b>Major Fund</b>	<b>Non-Major Fund</b>		
	<b>Water/ Sewer</b>	<b>Auto Parking</b>	<b>Total</b>	<b>Internal Service Funds</b>
<b>Operating revenues</b>				
Charges for services	\$ 4,793,385	\$ -	\$ 4,793,385	\$ 1,082,290
Parking meter receipts	-	315,898	315,898	-
Water penalties	116,130	-	116,130	-
Water meter repairs	8,193	-	8,193	-
Miscellaneous income	23,449	-	23,449	10,847
Total operating revenues	4,941,157	315,898	5,257,055	1,093,137
<b>Operating expenses</b>				
Personal services	1,047,801	95,068	1,142,869	177,595
General and administrative	71,916	20,439	92,355	515,652
Utilities	35,870	27,691	63,561	-
Rental expense	169,469	31,480	200,949	-
Contractual services	90,225	16,061	106,286	-
Water and sewer expense	2,997,920	-	2,997,920	-
Maintenance expense	162,654	5,194	167,848	-
Depreciation	1,316,962	31,071	1,348,033	335,973
Medical and benefit payments	-	-	-	223,277
Total operating expenses	5,892,817	227,004	6,119,821	1,252,497
Operating income (loss)	(951,660)	88,894	(862,766)	(159,360)
<b>Non-operating revenues (expenses)</b>				
Interest income	32,161	3,290	35,451	4,565
Interest expense	(914,624)	-	(914,624)	-
Gain on sale of capital assets	-	-	-	10,000
Total non-operating revenues (expenses)	(882,463)	3,290	(879,173)	14,565
Income before capital contributions and transfers	(1,834,123)	92,184	(1,741,939)	(144,795)
Transfer in	1,710,022	-	1,710,022	-
Transfer out	-	(47,385)	(47,385)	-
Capital contributions	-	35,692	35,692	-
Change in net assets	(124,101)	80,491	(43,610)	(144,795)
Net assets, beginning of year	11,087,869	1,000,866		2,251,711
<b>Net assets, end of year</b>	<b>\$ 10,963,768</b>	<b>\$ 1,081,357</b>		<b>\$ 2,106,916</b>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			(14,101)	
Change in net assets of business-type activities			<u>\$ (57,711)</u>	

The accompanying notes are an integral part of these financial statements.

**CITY OF FERNDAL, MICHIGAN**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2004**

	<b>Business-type Activities - Enterprise Funds</b>			<b>Governmental Activities</b>
	<b>Major Fund</b>	<b>Non-Major Fund</b>		
	<b>Water/ Sewer</b>	<b>Auto Parking</b>	<b>Total</b>	<b>Internal Service Funds</b>
<b>Cash flows from operating activities</b>				
Cash received from customers and others	\$ 5,068,744	\$ 311,518	\$ 5,380,262	\$ -
Cash received from interfund services	-	-	-	1,092,994
Cash payments to employees	(1,171,006)	(94,485)	(1,265,491)	(176,808)
Cash payments to suppliers for goods and services	(3,370,333)	(119,320)	(3,489,653)	(639,860)
Cash payments for interfund services	(71,916)	(20,439)	(92,355)	-
Net cash provided by operating activities	455,489	77,274	532,763	276,326
<b>Cash flows from investing activities</b>				
Investment income	32,161	3,290	35,451	4,565
<b>Cash flows from capital and related financing activities</b>				
Purchase of capital assets	(4,062,154)	(6,993)	(4,069,147)	(217,227)
Bond/note principal payments	(1,136,377)	-	(1,136,377)	-
Bond/note interest payments	(914,624)	-	(914,624)	-
Proceeds from sale of capital assets	-	-	-	10,000
Proceeds from debt issuance	2,858,308	-	2,858,308	-
Capital contribution	-	35,692	35,692	-
Net cash provided by (used in) capital and related financing activities	(3,254,847)	28,699	(3,226,148)	(207,227)
<b>Cash flows from non-capital financing activities</b>				
Transfers	1,710,022	(47,385)	1,662,637	-
Net increase (decrease) in cash and cash equivalents	(1,057,175)	61,878	(995,297)	73,664
Cash and cash equivalents, beginning of year	1,944,022	384,567	2,328,589	649,081
<b>Cash and cash equivalents, end of year</b>	<b>\$ 886,847</b>	<b>\$ 446,445</b>	<b>\$ 1,333,292</b>	<b>\$ 722,745</b>

Continued...

# CITY OF FERNDALE, MICHIGAN

## Statement of Cash Flows (Concluded)

### Proprietary Funds

For the Year Ended June 30, 2004

	Business-type Activities - Enterprise Funds			Governmental Activities
	Major Fund	Non-Major Fund		
	Water/ Sewer	Auto Parking	Total	Internal Service Funds
<b>Reconciliation of operating income (loss)</b>				
<b>to net cash provided by operating activities</b>				
Operating income (loss)	\$ (951,660)	\$ 88,894	\$ (862,766)	\$ (159,360)
Adjustments to reconcile operating income (loss)				
to net cash provided by operating activities:				
Depreciation	1,316,962	31,071	1,348,033	335,973
Changes in assets and liabilities:				
Accounts receivable - customers	161,567	(4,380)	157,187	(143)
Due from other governments	(70,683)	-	(70,683)	-
Inventories	1,246	-	1,246	(9,212)
Prepaid items	-	-	-	(9,000)
Long term receivable	35,457	-	35,457	-
Accounts payable	116,760	(38,894)	77,866	117,281
Accrued liabilities	(123,205)	583	(122,622)	787
Deposits payable	236	-	236	-
Long term payable	(31,191)	-	(31,191)	-
<b>Net cash provided by operating activities</b>	<u>\$ 455,489</u>	<u>\$ 77,274</u>	<u>\$ 532,763</u>	<u>\$ 276,326</u>

The accompanying notes are an integral part of these financial statements.

# CITY OF FERNDALE, MICHIGAN

## Statement of Fiduciary Net Assets

### Fiduciary Funds

June 30, 2004

	<b>Pension Trusts</b>	<b>Agency</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 3,480,069	\$ 240,841
Accrued interest receivable	222,263	-
Investments		
Common stock	34,220,857	-
Corporate bonds	19,412,202	-
Total investments	53,633,059	-
Total assets	57,335,391	\$ 240,841
<b>LIABILITIES</b>		
Liabilities		
Accounts payable	1,163	\$ 415
Other liabilities	-	240,426
Total liabilities	1,163	\$ 240,841
<b>NET ASSETS</b>		
Held in trust for pension benefits and other purposes	\$ 57,334,228	

The accompanying notes are an integral part of these financial statements.

**CITY OF FERNDALE, MICHIGAN**  
**Statement of Changes in Fiduciary Net Assets**  
**Retirement Systems**  
**For the Year Ended June 30, 2004**

	<b>Pension Trusts</b>
<b>Additions</b>	
Contributions	
Employer contributions	\$ 571,535
Plan member contributions	134,043
	<hr/>
Total contributions	705,578
	<hr/>
Investment income	
Net appreciation in fair value	5,105,383
Interest	1,160,092
Dividends	662,315
	<hr/>
Total investment income	6,927,790
	<hr/>
Less investment expense	(214,303)
	<hr/>
Net investment income	6,713,487
	<hr/>
<b>Total additions</b>	7,419,065
	<hr/>
<b>Deductions</b>	
Benefits	3,373,182
Administrative expenses	42,139
	<hr/>
<b>Total deductions</b>	3,415,321
	<hr/>
Net increase (decrease) in plan net assets	4,003,744
	<hr/>
Net assets held in trust for pension benefits - beginning of year	53,330,484
	<hr/>
Net assets held in trust for pension benefits - end of year	<u><u>\$ 57,334,228</u></u>

The accompanying notes are an integral part of these financial statements.

# CITY OF FERNDALE, MICHIGAN

## Notes To Financial Statements

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 1-A. Reporting Entity

The accompanying financial statements present the activities of the City of Ferndale, Michigan (the “City” or “government”) and its component unit, which is a legally separate organization for which the City is financially accountable. The component unit has a June 30 year-end.

<u>Component Unit</u>	<u>Included in the Reporting Entity Because</u>	<u>Separate Financial Statements Available</u>
Downtown Development Authority (DDA); corrects and prevents deterioration in the downtown district, encourages historical preservation and promotes economic growth within the district	City Commission appoints and may remove DDA board and approves DDA budget	Not prepared

#### 1-B. Basis of Presentation

*Government-wide Financial Statements.* The statements of net assets and activities display information about the primary government (the City) and its component unit. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the City’s *governmental* and *business-type activities*. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City’s governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees, fines and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

*Fund Financial Statements.* The fund financial statements provide information about the City’s funds, including its fiduciary funds. Separate statements for each fund category – *governmental*, *proprietary* and *fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

# CITY OF FERNDALE, MICHIGAN

## Notes To Financial Statements

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The City reports the following major governmental funds:

*General fund.* This is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

*Major streets fund.* This fund accounts for activities, maintenance and capital improvements of the City's major streets.

*Sanitation fund.* This fund accounts for activities of the City's rubbish collection and disposition.

*Debt service fund.* This fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The City reports the following major enterprise fund:

*Water and sewer fund.* This fund accounts for the activities of the City's water distribution, water treatment, sewage disposal and sewage treatment systems.

Additionally, the City reports the following fund types:

*Special revenue funds.* These funds account for revenue sources that are legally restricted to expenditures for specific purposes not including major capital projects.

*Capital projects fund.* This fund accounts for the acquisition of capital assets or construction of major capital projects not being financed by proprietary funds.

*Enterprise funds.* These funds account for those operations that are financed and operated in a manner similar to private business or where the City has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

*Internal service funds.* These funds account for operations that provide services to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis. This includes vehicles and equipment maintenance and workers' compensation self-insurance.

*Pension trust funds.* These funds account for the activities of the Employees Retirement System as well as the Policemen and Firemen Retirement System, which accumulates resources for retirement benefits and post-retirement health care payments to qualified employees.

*Agency funds.* These funds account for assets held for other governments in an agency capacity.

# CITY OF FERNDALE, MICHIGAN

## Notes To Financial Statements

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### 1-C. Measurement Focus / Basis of Accounting

*Government-wide, Proprietary and Fiduciary Fund Financial Statements.* The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's enterprise funds and internal services funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

*Governmental Fund Financial Statements.* Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if they are collected within sixty days after year-end. Property taxes, franchise taxes, intergovernmental revenues, licenses and interest are considered to be susceptible to accrual.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

Both the government-wide and proprietary fund financial statements of the City follow private-sector standards of accounting and financial reported issued prior to December 1, 1989, unless those standards conflict with guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.



# CITY OF FERNDALE, MICHIGAN

## Notes To Financial Statements

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As a general rule the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payment-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

### **1-D. Assets, Liabilities and Equity**

#### **Deposits and Investments**

The City maintains an investment pool for all City funds. Each fund's portion of the investment pool is displayed on the statement of net assets/balance sheet as "cash and cash equivalents". The cash resources of the Employees Retirement System as well as the Policemen and Firemen Retirement System are invested separately.

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments. The State's Pension Investment Act, as amended, authorizes the pension trust fund, to invest in common stocks, real estate, and various other investment instruments, subject to certain limitations.

Investments are stated at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Investments that do not have established market values are reported at estimated fair value. Cash deposits are reported at carrying amounts, which reasonably approximates fair value.

Unrealized appreciation or depreciation on pension trust fund investments due to changes in fair value are recognized each year.

#### **Receivables and Payables**

All trade and delinquent property tax receivables are shown net of an allowance for uncollectibles, as applicable.

All outstanding balances between funds are reported as *due to/from other funds*. Any residual balances outstanding between the governmental and business-type activities are reported in the government-wide financial statements as *internal balances*.

# CITY OF FERNDALE, MICHIGAN

## Notes To Financial Statements

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### Inventories, Prepaid Items and Other Assets

All inventories are valued at cost using the first-in/first-out method. Generally, inventories of governmental funds are recorded as expenditures when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

### Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	5-25
Buildings and building improvements	5-25
Public domain infrastructure	15-25
Water and wastewater system infrastructure	10-40
Vehicles	2-10
Office equipment	5-10
Machinery and equipment	5-10

### Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused sick and compensatory time benefits, subject to certain limitations. All sick time pay is accrued at 50 percent of earned and unused leave hours in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

# CITY OF FERNDALE, MICHIGAN

## Notes To Financial Statements

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### **Long-term Obligations**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

### **Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Fund balance designations represent tentative management plans that are subject to change.

## **NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

### **2-A. Budgetary Information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at year end, except for those approved by the City Council for carry forward. The legal level of budgetary control is the activity level for the general fund and the fund level for special revenue funds.

The City Council requires the City Manager to submit an estimate of revenues and anticipated expenditures for the succeeding fiscal year in June. The City Manager is then authorized to assign and transfer budget amounts within each fund to the extent that the net total fund appropriation (which the City defines as gross authorized expenditures less related revenues that are specifically designated to fund those activities) is not exceeded. City Council approval is required for any budgetary changes that result in an increase to net appropriations.

Formal budgetary integration is employed as a management control during the year. Supplemental appropriations were approved by the City Council in the form of budget amendment resolutions or as part of special authorizing motions for grants, bonds or notes, the total of which was not significant in relation to the original budget appropriation valuations.

# CITY OF FERNDALE, MICHIGAN

## Notes To Financial Statements

### 2-B. Excess of Expenditures Over Appropriations

State statutes provide that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended June 30, 2004, the City incurred expenditures in excess of the amounts appropriated as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund Activity:			
General government	\$ 2,810,452	\$ 2,813,756	\$ 3,304
Public safety	10,022,415	10,061,360	38,945
Major streets fund	837,488	2,538,473	1,700,985
Sanitation	2,031,270	2,090,058	58,788
Local streets fund	398,751	481,859	83,108

### NOTE 3 – DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

#### 3-A. Deposits, Investments and Securities Lending

*Summary of Deposit and Investment Balances.* Following is a reconciliation of deposit and investment balances as of June 30, 2004:

	<u>Primary Government</u>	<u>Component Unit</u>	<u>Total</u>
<b>Statement of Net Assets</b>			
Cash and cash equivalents	\$ 7,939,432	\$ -	\$ 7,939,432
Restricted cash and cash Equivalents	127,981	-	127,981
<b>Statement of Fiduciary Net Assets</b>			
Cash and cash equivalents	3,720,910	-	3,720,910
Investments	53,633,059	-	53,633,059
<b>Total</b>	<u>\$ 65,421,382</u>	<u>\$ -</u>	<u>\$ 65,421,382</u>
<b>Deposits and Investments</b>			
Bank deposits (checking accounts, savings accounts and CDs)	\$ 230,292		
Investments in securities, mutual funds and similar vehicles	65,184,640		
Cash on hand	6,450		
<b>Total</b>	<u>\$ 65,421,382</u>		

# CITY OF FERNDALE, MICHIGAN

## Notes To Financial Statements

*Deposits.* At year-end, the carrying amount of deposits was \$230,292. The bank balance was \$239,370. Of the bank balance, \$200,000 was covered by federal depository insurance.

The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits at all times. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

*Investments.* The City's investments have been classified into the following three categories of credit risk: (1) insured or registered, or securities held by the government or its agent in the government's name; (2) uninsured and unregistered, with securities held by the counterparty's trust department or agent in the government's name; or (3) uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the government's name.

The following schedule classifies the City's investments as of June 30, 2004, into the above noted categories:

	<b>Category</b>			<b>Uncategorized</b>	<b>Carrying Amount (Fair Value)</b>
	<b>1</b>	<b>2</b>	<b>3</b>		
Corporate stocks	\$ -	\$ 34,220,858	\$ -	\$ -	\$ 34,220,858
Corporate bonds	-	19,412,202	-	-	19,412,202
Total investments	<u>\$ -</u>	<u>\$ 53,633,060</u>	<u>\$ -</u>		
Mutual and cash management funds (uncategorized as to risk)				\$ 11,551,580	11,551,580
<b>Total investments</b>				<u>\$ 11,551,580</u>	<u>\$ 65,184,640</u>

Mutual and cash management funds are registered with the SEC. The Michigan Banking Act regulates these bank investment pools. The fair value of the position in the bank investment pools is the same as the value of the pool shares. The bank investment pools are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes that the investments in these funds comply with the investment authority noted above.

### 3-B. Receivables

Receivables in the governmental activities are 57.9 percent due from other governments, 37.6 percent accounts receivables, 4.1 percent taxes and special assessments and 0.4 percent accrued interest. Business-type activities receivables are 46.4 percent due from customers, and 53.6 percent due from other governments.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

# CITY OF FERNDALE, MICHIGAN

## Notes To Financial Statements

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Personal property taxes not yet received (general, sanitation and debt service funds)	\$ 57,592	\$ -	\$ 57,592
Grant payments in advance of services	<u>-</u>	<u>47,861</u>	<u>47,861</u>
	<u>\$ 57,592</u>	<u>\$ 47,861</u>	<u>\$ 105,453</u>

### 3-C. Capital Assets

Capital assets activity for the year ended June 30, 2004 was as follows:

#### Primary government

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
<b>Governmental activities</b>					
Capital assets, not being depreciated -					
Land	\$ 637,878	\$ -	\$ -	\$ -	\$ 637,878
Capital assets, being depreciated:					
Buildings	4,477,493	95,521	-	961,285	5,534,299
Equipment	5,505,043	273,189	(29,609)	(961,285)	4,787,338
Vehicles	3,042,282	121,180	-	-	3,163,462
Infrastructure	36,134,011	1,777,046	-	-	37,911,057
Total capital assets being depreciated	49,158,829	2,266,936	(29,609)	-	51,396,156
Less accumulated depreciation for					
Buildings	(1,695,259)	(225,613)	-	(414,769)	(2,335,641)
Equipment	(3,376,891)	(335,128)	29,609	414,769	(3,267,641)
Vehicles	(2,478,242)	(227,197)	-	-	(2,705,439)
Infrastructure	(15,258,514)	(2,184,976)	-	-	(17,443,490)
Total accumulated depreciation	(22,808,906)	(2,972,914)	29,609	-	(25,752,211)
Total capital assets being depreciated, net	26,349,923	(705,978)	-	-	25,643,945
Governmental activities capital assets, net	<u>\$ 26,987,801</u>	<u>\$ (705,978)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,281,823</u>

# CITY OF FERNDALE, MICHIGAN

## Notes To Financial Statements

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	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
<b>Business-type activities</b>					
Capital assets, not being depreciated -					
Land	\$ 454,903	\$ -	\$ -	\$ -	\$ 454,903
Construction in progress	6,493,781	2,806,532	-	-	9,300,313
Total capital assets not being depreciated	6,948,684	2,806,532	-	-	9,755,216
Capital assets, being depreciated:					
Buildings	1,041,474	101,400	-	-	1,142,874
Equipment	973,344	-	-	-	973,344
Vehicles	391,627	-	-	-	391,627
Infrastructure	29,648,447	1,161,215	-	-	30,809,662
Total capital assets being depreciated	32,054,892	1,262,615	-	-	33,317,506
Less accumulated depreciation for					
Buildings	(967,257)	(76,227)	-	-	(1,043,484)
Equipment	(758,977)	(49,058)	-	-	(808,035)
Vehicles	(81,699)	(34,437)	-	-	(116,136)
Infrastructure	(7,508,280)	(1,188,311)	-	-	(8,696,591)
Total accumulated depreciation	(9,316,213)	(1,348,033)	-	-	(10,664,246)
Total capital assets being depreciated, net	22,738,679	(85,418)	-	-	22,653,261
Business-type activities capital assets, net	<u>\$ 29,687,363</u>	<u>\$ 2,721,114</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 32,408,477</u>

# CITY OF FERNDALE, MICHIGAN

## Notes To Financial Statements

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Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities	
General government	\$ 159,178
Public safety	76,404
Public works	206,389
Highways and streets	2,030,134
Community and economic development	1,077
Recreation and culture	163,760
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>335,972</u>
Total depreciation expense - governmental activities	<u><u>\$ 2,972,914</u></u>
Business-type activities	
Water and sewer	\$ 1,316,962
Auto parking	31,071
	<u><u>\$ 1,348,033</u></u>

The City has an active construction project as of June 30, 2004. The City is a participating community in the George W. Kuhn drain project along with thirteen other local municipalities: The total cost of the project is currently estimated at approximately \$123,000,000 with the City's share of total projects costs at \$12,000,000.

As of June 30, 2004 the City's financial activity as it relates to this project is as follows:

<b><u>Project</u></b>	<b><u>Spent-to-Date</u></b>	<b><u>Remaining Commitment</u></b>
George W. Kuhn Drain	\$ 9,300,313	\$ 2,699,687

The project is being financed through the sale of drain bonds through the Oakland County Drain Commission and draw-downs from the State of Michigan revolving fund.



# CITY OF FERNDALE, MICHIGAN

## Notes To Financial Statements

### Discretely presented component units

Activity for the Downtown Development Authority for the year ended June 20, 2004, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated				
Equipment	\$ 41,720	\$ 10,138	\$ -	\$ 51,858
Vehicles	37,103	-	-	37,103
Infrastructure	1,084,097	110,259	-	1,194,356
Total capital assets being depreciated	1,162,920	120,397	-	1,283,317
Less accumulated depreciation for				
Equipment	(25,032)	(9,358)	-	(34,390)
Vehicles	(6,502)	(3,710)	-	(10,212)
Infrastructure	(414,054)	(79,899)	-	(493,953)
Total accumulated depreciation	(445,588)	(92,967)	-	(538,555)
Component unit activity capital assets, net	\$ 717,332	\$ 27,430	\$ -	\$ 744,762

### 3-D. Interfund Receivables, Payables and Transfers

At June 30, 2004, the following amounts were payable to the general fund:

Non-major governmental funds	<u>\$ 31,683</u>
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Also, certain amounts are reported as internal balances in the statement of net assets relative to the elimination of the Internal Service Fund.

For the year then ended, interfund transfers consisted of the following:

	Transfer In			
	General	Non-major Governmental	Water and Sewer	Total
General fund	\$ -	\$ 200,000	\$ -	\$ 200,000
Sanitation fund	20,000	-	-	20,000
Debt service fund	-	-	1,710,022	1,710,022
Non-major governmental funds	216,311	-	-	216,311
Auto parking	47,385	-	-	47,385
	<u>\$ 283,696</u>	<u>\$ 200,000</u>	<u>\$ 1,710,022</u>	<u>\$ 2,193,718</u>

# CITY OF FERNDALE, MICHIGAN

## Notes To Financial Statements

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Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

### 3-E. Long-term Debt

*General obligation bonds.* The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. The original amount of general obligation bonds issued in prior years for the items listed below for the primary government were \$43,419,457 to finance the repair and/or reconstruction of water, sewer and street infrastructure and \$1,500,000 to finance park improvements.

*George W. Kuhn project bonds and revolving fund obligations* The City is a participating community in the George W. Kuhn drain project. The project is administered by the Oakland County Drain Commission, and financed through the sale of drain bonds, draw downs from the State of Michigan revolving fund, Federal and State of Michigan grants and contributions from Oakland County, Michigan. The City along with thirteen other local community's are obligated for the payment of principal and interest of the outstanding debt. It is currently anticipated that the City's total obligation at the end of construction will be approximately \$12,000,000 or 9.77% of the projects total cost of \$123,000,000. Due to the current construction of the project, the sale of bonds and draw downs from the State of Michigan revolving fund are being incurred on an as needed basis and thus an accurate schedule of principal and interest payments cannot be determined at this time. Accordingly, it is not included in the following schedule of annual debt service requirements.

<u>Purpose</u>	<u>Interest Rate</u>	<u>Amount</u>
<b>Governmental activities</b>		
Series III and IV general obligation bonds	5.0% - 6.6%	\$ 5,835,139
2004 refunding bonds	2.0% - 5.0%	8,611,952
Premium on 2004 refunding bonds	2.0% - 5.0%	189,143
Park improvement general obligation bonds	4.3% - 4.4%	75,000
		<u>\$ 14,711,234</u>

# CITY OF FERNDALE, MICHIGAN

## Notes To Financial Statements

	<u>Interest Rate</u>	<u>Amount</u>
<b>Business-type activities</b>		
Series III and IV general obligation bonds	5.0% - 6.6%	\$ 5,564,862
2004 refunding bonds	2.0% - 5.0%	8,213,048
Premium on 2004 refunding bonds	2.0% - 5.0%	180,383
George W. Kuhn drain project	2.0% - 5.0%	10,310,093
		<u>\$ 24,268,386</u>

Annual debt service requirements to maturity for general obligation bonds are as follows:

	<i>Governmental Activities</i>		<i>Business-type Activities</i>	
	<u>Principal</u>	<u>Interest and Premium</u>	<u>Principal</u>	<u>Interest and Premium</u>
2005	\$ 1,190,843	\$ 693,316	\$ 1,064,157	\$ 659,628
2006	1,207,977	649,540	1,152,023	619,454
2007	829,204	604,190	790,796	576,204
2008	982,760	573,322	937,240	548,672
2009	1,082,572	529,049	1,032,428	504,545
2010-2013	5,057,120	1,562,500	4,822,880	1,490,126
2014-2018	4,171,615	476,859	3,978,386	454,772
	<u>\$ 14,522,091</u>	<u>\$ 5,090,776</u>	<u>\$ 13,777,910</u>	<u>\$ 4,853,772</u>

*Changes in Long-Term Debt.* Long-term liability activity for the year ended June 30, 2004, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Primary Government</b>					
Governmental activities					
Series III and IV general obligation	6,244,623	-	(409,484)	5,835,139	204,742
2004 refunding bonds	9,282,481	-	(670,529)	8,611,952	911,101
Premium on refunding bonds	204,906	-	(15,763)	189,143	15,762
Park improvement and general obligation	150,000	-	(75,000)	75,000	75,000
MDOT traffic improvement loan	51,973	-	(51,973)	-	-
Accrued compensated absences	265,007	14,977	-	279,984	24,650
	<u>\$ 16,198,990</u>	<u>\$ 14,977</u>	<u>\$ (1,222,748)</u>	<u>\$ 14,991,218</u>	<u>\$ 1,231,255</u>

# CITY OF FERNDALE, MICHIGAN

## Notes To Financial Statements

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Business-type activities</b>					
Series III and IV general Obligation	\$ 5,955,378	\$ -	\$ (390,516)	\$ 5,564,862	\$ 195,258
2004 refunding bonds	8,852,519	-	(639,471)	8,213,048	868,899
Premium on refunding Bonds	195,415	-	(15,032)	180,383	15,032
George W. Kuhn Obligation	7,543,143	2,858,308	(91,358)	10,310,093	452,298
	<u>\$ 22,546,455</u>	<u>\$ 2,858,308</u>	<u>\$ (1,136,377)</u>	<u>\$ 24,268,386</u>	<u>\$ 1,531,487</u>

For the governmental activities, compensated absences are generally liquidated by the general fund.

### 3-F. Segment Information – Enterprise Funds

The Water and Sewer Fund, is an individual fund that accounts entirely for the government's water and wastewater activities. This fund is a segment and is reported as a major fund in the fund financial statements; therefore, segment disclosures herein are not required.

### 3-G. Reserves, Designations and Restrictions of Fund Balance and Net Assets

*Reserves* Reserved fund balances are legal restrictions on fund balance imposed by sources outside the City, which typically involve donor restrictions for specific purposes on City financial resource.

*Designations* Designated fund balances are restrictions imposed by the City on the use of fund balance for specific purposes.

*Restricted Net Assets* Restricted net assets on the Statement of Net Assets are similar to reserved fund balance in that a portion of net assets are legally restricted for a specific purpose as imposed by sources outside of the City.

# CITY OF FERNDALE, MICHIGAN

## Notes To Financial Statements

The schedule of reserved, designated and restricted fund balance and net assets is as follows:

	<b>Other Reserved Fund Balance</b>	<b>Designated Fund Balance</b>
<b>Governmental activities:</b>		
Library donations	\$ 3,607	\$ -
Accrued compensated absences	-	279,984
Police in-service training	5,339	-
Heldt memorial	6,108	-
Women's club	5,447	-
Court renovation	-	291,162
Local law enforcement grant	5,319	-
Fire equipment	-	38,447
Veterans' memorial	2,487	-
Next year's budget	-	860,034
Cable TV equipment	-	100,000
Technology equipment	-	100,000
Cable TV advance	-	34,419
Seniors' memorial	-	10,655
	<u>\$ 28,307</u>	<u>\$ 1,714,701</u>

### NOTE 4 – OTHER INFORMATION

#### 4-A. Risk Management

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions, injuries and illnesses of employees; and natural disasters. The City maintains an Internal Service Fund to account for and finance its risks of loss for workers' compensation claims. Workers' compensation is provided through purchased commercial insurance. For workers' compensation claims, the policy covers the City's claims up to \$350,000 per occurrence. The City is self-insured for the following risks up to the maximum amount per claim as follows: general liability - \$75,000 and property - \$11,000. The City is insured for those automobile claims that consist of employee injuries and City vehicle damage. There have been no significant reductions in insurance coverage from the prior year.

The City participates in the Michigan Municipal Risk Management Authority (MMRMA), a self-insured public-entity risk pool organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to Michigan cities, counties, townships and special purpose governments. The City covers the first \$75,000, and the risk pool covers the next \$925,000. Excess commercial insurance is provided through the pool up to an additional \$9,000,000. Should actual losses among participants be greater than anticipated, the City will be assessed its pro rata share of that deficiency. Conversely, if the actual losses are less than anticipated, there will be a reduction in the City's future contribution to the pool. Settled claims have not exceeded this commercial coverage in any of the past three years.

# CITY OF FERNDALE, MICHIGAN

## Notes To Financial Statements

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### **4-B. Property Taxes**

The government's property taxes are levied each July 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest if paid in full by July 31<sup>st</sup> or if elected by the taxpayer, paid using an eight monthly installment method from July through February. As of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Oakland County. Assessed values, as established annually by the government and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value. The taxable value of real and personal property in the City for the 2003 levy, including industrial facilities was \$507,658,686. The government's general operating tax rate for fiscal 2003-04 was 15.6006 mills with an additional 2.3399 mills for refuse collection and 6.9175 for City debt.

Property taxes for the DDA (Downtown Development Authority) are derived from tax increment financing agreements with the various applicable taxing authorities. Under these arrangements, the DDA receives the property taxes levied on the increment of current taxable values over the base year values on those properties located within the established tax increment financing district.

Property taxes are recognized in the fiscal year in which they are levied.

### **4-C. Contingent Liabilities**

Amounts received or receivable from grantor agencies are subject to audit and potential adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

The government is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the government's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the government.

### **4-D. Postemployment Benefits**

#### **Ferndale Employees Retirement System**

##### **Plan Description**

The Ferndale Employees Retirement System (FERS) is a single-employer defined benefit pension plan administered by the City that covers all full-time municipal employees. Effective July 1, 1996, FERS was closed to new hires and existing members were permitted to transfer to the new Defined Contribution Plan. FERS provides retirement, disability, and death benefits to plan members. The requirements of the State Constitution and Chapter XIXA of the City Charter assigns the authority to establish and amend benefit provisions of the plan to the Board of Trustees. A separate financial statement of the Plan has not been issued.

# CITY OF FERNDALE, MICHIGAN

## Notes To Financial Statements

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### Summary of Significant Accounting Policies

The Ferndale Employees Retirement System financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

### Contributions

Plan members are required to contribute between 0% and 4.26% of their annual covered salary. The City is not required to make a contribution. Per Chapter XIXA of the City Charter, contribution requirements of the plan members and the City are established and may be amended by the Board of Trustees. Administrative costs of FERS are financed through investment earnings.

Membership of the FERS consisted of the following at June 30, 2003, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	85
Terminated plan members entitled to but not yet receiving benefits	3
Active plan members	<u>1</u>
Total	<u>89</u>

### Annual Pension Cost

For the year ended June 30, 2004, the City had no annual pension cost or required or actual contributions.

Three-Year Trend Information			
Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2002	\$ -	\$ -	\$ -
June 30, 2003	-	-	-
June 30, 2004	-	-	-

# CITY OF FERNDAL, MICHIGAN

## Notes To Financial Statements

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### Ferndale Policeman and Fireman Retirement System

#### Plan Description

The Ferndale Policeman and Fireman Retirement System (FPFRS) is a single-employer defined benefit pension plan administered by Comerica Bank Corporation that covers all full-time municipal police and firemen. Effective July 1, 1996, the FPFRS provides retirement, disability and death benefits to plan members. The requirements of the State Constitution and Chapter XIXB of the City Charter assigns the authority to establish and amend benefit provisions of the plan to the Board of Trustees. A separate financial statement of the Plan has not been issued.

#### Summary of Significant Accounting Policies

The Ferndale Policeman and Fireman Retirement System financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

#### Contributions

Plan members are required to contribute between 1.6% and 5.35% of their annual covered salary. The City is not required to make a contribution for the year ended June 30, 2004. Per Chapter XIXB of the City Charter, contribution requirements of the plan members and the City are established and may be amended by the Board of Trustees. Administrative costs of FPFRS are financed through investment earnings.

Membership of the FPFRS consisted of the following at June 30, 2003, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	94
Terminated plan members entitled to but not yet receiving benefits	1
Active plan members	<u>41</u>
Total	<u><u>136</u></u>



# CITY OF FERNDALE, MICHIGAN

## Notes To Financial Statements

### Annual Pension Cost

For the year ended June 30, 2004, the City's annual pension cost of \$0 was equal to the City's required and actual contributions.

Three-Year Trend Information			
Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2002	\$ -	% -	\$ -
June 30, 2003	-	-	-
June 30, 2004	-	-	-

	FERS	FPFRS
Valuation Date	June 30, 2003	June 30, 2003
Actuarial Cost Method	Aggregate	Entry-Age Level percent
Amortization	N/A	closed
Remaining Amortization Period	N/A	9 years
Assets Valuation Method		
Smoothed Market	4 years	4 years
Actuarial Assumptions:		
Investment Rate of Return	7.5%	7.5%
Additional Projected Salary		
Increase	4.5 - 8.9%	4.5 - 7.5%
Includes inflation at	4.5%	4.5%
Cost of Living Adjustment	None	None

### City Defined Contribution Pension Plan

The City of Ferndale Defined Contribution Pension Plan is held in trust and covers approximately 120 employees of the City. The plan is available to employees upon their first day of employment and benefits are fully vested upon the fifth year of service. The third party administrator for this plan is I.C.M.A. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The defined contribution pension cost to the City for the fiscal year ending June 30, 2004 was \$545,407. The defined contribution pension cost to the employees was \$168,153. Contributions to the plan are recognized when due and payable. Plan provisions and contribution rates are established and may be amended for union employees by contract and for non-union employees by resolution of the City Council. Unvested benefits forfeited by employees who leave employment early are used to reduce City contributions. Assets of the plan are valued at \$16,383,353.

# CITY OF FERNDALE, MICHIGAN

## Notes To Financial Statements

The City's contribution rate structure is as follows:

	Police	City and Admin hire prior to 7/16/96	City hire subsequent to 7/16/96	Admin hire subsequent to 7/16/96	City Manager
City Contribution	9%	6%	5%	5%	6%
Employee Contribution	0%	0%	0%	0%	0%
Or					
City Contribution	12%	9%	5%	7%	10%
Employee Contribution	3%	3%	3%	3%	3%

### **43<sup>rd</sup> District Court Profit Sharing Pension Plan**

The 43<sup>rd</sup> District Court Profit Sharing Pension Plan is held in trust and covers 18 employees (13 current and 5 former) of the District Court. The plan is available to employees upon their first day of employment and benefits are fully vested upon the seventh year of service. The third party administrator for this plan is Carl W. Brumme. In a profit sharing pension plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The profit sharing pension cost to the 43<sup>rd</sup> District Court for the fiscal year ending June 30, 2004 was \$73,861. The defined contribution pension cost to the employees was \$0. Contributions to the plan are recognized when due and payable. Plan provisions and contribution rates are established and may be amended for union employees by contract and for non-union employees by resolution of the City Council. Unvested benefits forfeited by employees who leave employment early are used to reduce District Court contributions. Assets of the plan are valued at \$1,380,513.

### **Retiree Health Care Plan**

The City of Ferndale, Michigan also sponsors a retiree health care plan (the "Plan"). The Plan is a single employer defined benefit public retiree health care plan established effective May 29, 2001. The purpose of the Plan is to provide former full-time retired employees and/or spouses with health care coverage during retirement. Benefits under the Plan are administered under a third party agreement with Blue Cross Blue Shield of Michigan. The Plan is maintained as a pension trust fund in the City of Ferndale financial statements. The Mayor and City Council has the authority to establish and amend benefit provisions.

The Plan is a non-contributory defined benefit plan that covers substantially all employees of the City as defined above. At June 30, 2002, the date of the latest actuarial valuation, participants in the Plan consisted of:

Retirees and beneficiaries receiving benefits	278
Active employees	156
Total	<u>434</u>

# CITY OF FERNDALE, MICHIGAN

## Notes To Financial Statements

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The employer contributes on a pay-as-you-go basis. Contributions to the Plan were \$571,535 for the fiscal year ended June 30, 2004.

The benefit obligation represents the actuarial present value of those estimated future benefits that are attributed to employee service rendered to June 30, 2002. Postretirement benefits include future benefits expected to be paid to or for (1) currently retired or terminated employees and spouses and (2) active employees and their beneficiaries after retirement from service. Prior to an active employee's full eligibility date, the postretirement benefit obligation is the portion of the expected postretirement benefit obligation that is attributed to that employee's service rendered to the valuation date.

The actuarial present value of the expected postretirement benefit obligation is determined by an actuary and is the amount that results from applying actuarial assumptions to historical insurance premium-cost data to estimate future annual premium costs per participant and to adjust such estimates for the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as those for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment.

The Plan's unfunded accrued liability was determined as part of an actuarial valuation of the Plan as of June 30, 2002. Significant actuarial assumptions used in determining the Plan's unfunded accrued liability included (a) a rate of return on the investment (net of investment expense) of 7.5% per year compounded annually, (b) projected salary increases of 4.5% per year, attributable to inflation, (c) additional projected salary increases ranging from 0.0% to 4.4% per year, depending on age, attributable to seniority/merit, (d) future life expectancy, based on age and sex, (e) rate of retirement, (f) rate of separation from active membership, (g) marital status, and (h) health care cost increases of 5.50% per year. The Plan assets consist of cash equivalents in short-term investments.

The Plan's unfunded accrued liability, which was determined by an actuary, is as follows at June 30, 2002:

Retirees and beneficiaries currently receiving benefits	\$	18,757,425
Terminated employees not yet receiving benefits		251,643
Current employees		<u>6,292,264</u>
Total		25,301,332
Value of plan assets		<u>1,476,128</u>
Unfunded Accrued Liability	\$	<u><u>23,825,204</u></u>

The foregoing assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of the postretirement accrued liability.

### 4-E. Joint Venture

The City is a member of the Southeastern Oakland County Resource Recovery Authority (the "Authority"), which consists of 12 municipalities in Oakland County and provides refuse disposal services for the benefit of member municipalities. The City appoints one member of the joint venture's governing board, which approves the annual budget. The participating communities provide funding for

# **CITY OF FERNDALE, MICHIGAN**

## **Notes To Financial Statements**

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its operations. During the year ended June 30, 2004, the Authority reported a reduction in net assets in the amount of \$1,119,139 and reported an ending retained earnings amount of \$6,966,199. During the year ended June 30, 2004, the City expended \$526,999 of payments made to the Authority. Complete financial statements for the Southeastern Oakland Resource Recovery Authority can be obtained from the administrative offices at 3910 Webster Road, Royal Oak, Michigan 48073.

\* \* \* \* \*

***REQUIRED SUPPLEMENTARY  
INFORMATION***

# CITY OF FERNDAL, MICHIGAN

## Required Supplementary Information (Unaudited)

### Defined Benefit Pension Trust - Ferndale Employees Retirement System

#### Trend Information

Schedule of Funding Progress						
Actuarial Valuation Date June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Attained Age# (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio % (a / b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a) / c)
1998	16,940,252	13,649,307	(3,290,945)	124.1	365,223	(901.1)
1999	18,389,035	13,586,473	(4,802,562)	135.3	299,798	(1,601.9)
2000	19,026,753	12,500,733	(6,526,020)	152.2	157,828	(4,134.9)
2001	19,416,086	11,772,304	(7,643,782)	164.9	135,998	(5,620.5)
2002	18,944,647	10,817,132	(8,127,515)	175.1	96,460	(8,425.8)
2003	18,273,195	10,451,898	(7,821,297)	174.8	46,329	(16,882.1)

Schedule of Employer Contributions				
Fiscal Year Ended June 30	Contribution Rates as Percents of Valuation Payroll	Computed Dollar Contribution Based on Projected Payroll	Actual Annual Contributions	Percent of Required Contribution
1999	0.00	0	0	100
2000	0.00	0	0	100
2001	0.00	0	0	100
2002	0.00	0	0	100
2003	0.00	0	0	100
2004	0.00	0	0	100

# CITY OF FERNDAL, MICHIGAN

## Required Supplementary Information (Unaudited)

### Defined Benefit Pension Trust - Ferndale Policeman and Fireman Retirement System

#### Trend Information

Schedule of Funding Progress						
Actuarial Valuation Date June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Attained Age# (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio % (a / b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a) / c)
1998	34,772,446	33,829,109	(943,337)	102.8	2,845,885	(33)
1999	35,451,697	33,478,039	(1,973,658)	105.9	2,498,210	(79)
2000	38,039,217	32,444,681	(5,594,536)	117.2	2,547,831	(219)
2001	39,246,828	32,164,933	(7,081,895)	122.0	2,620,382	(270)
2002	38,371,312	31,242,171	(7,129,141)	122.8	2,544,785	(280)
2003	36,737,847	31,315,210	(5,422,637)	117.3	2,616,156	(207)

Schedule of Employer Contributions				
Fiscal Year Ended June 30	Contribution Rates as Percents of Valuation Payroll	Computed Dollar Contribution Based on Projected Payroll	Actual Annual Contributions	Percent of Required Contribution
1999	17.55	376,322	376,322	100
2000	14.64	365,594	365,594	100
2001	11.16	294,134	294,134	100
2002	0.00	0	0	100
2003	0.00	0	0	100
2004	0.00	0	0	100

***COMBINING AND INDIVIDUAL FUND  
FINANCIAL STATEMENTS AND SCHEDULES***



**CITY OF FERNDAL, MICHIGAN**  
**Combining Balance Sheet**  
**Non-Major Governmental Funds**  
**June 30, 2004**

	Special Revenue						Total Nonmajor Governmental Funds
	Local Street	Drug Forfeiture	Community Development Block Grant	Library	Public Improvement	SMART Taxi Subsidy	
<b>Assets</b>							
Cash and cash equivalents	\$ 220,746	\$ 171,041	\$ 64,083	\$ -	\$ 701,092	\$ 37,043	\$ 1,194,005
Intergovernmental receivables	61,868	-	9,041	31,683	-	6,191	108,783
Total assets	<u>\$ 282,614</u>	<u>\$ 171,041</u>	<u>\$ 73,124</u>	<u>\$ 31,683</u>	<u>\$ 701,092</u>	<u>\$ 43,234</u>	<u>\$ 1,302,788</u>
<b>Liabilities</b>							
Accounts payable	\$ 17,950	\$ 1,047	\$ -	\$ -	\$ -	\$ -	\$ 18,997
Accrued liabilities	5,487	-	-	-	-	2,355	7,842
Due to other funds	-	-	-	31,683	-	-	31,683
Total liabilities	<u>23,437</u>	<u>1,047</u>	<u>-</u>	<u>31,683</u>	<u>-</u>	<u>2,355</u>	<u>58,522</u>
<b>Fund balance:</b>							
Unreserved, undesignated	<u>259,177</u>	<u>169,994</u>	<u>73,124</u>	<u>-</u>	<u>701,092</u>	<u>40,879</u>	<u>1,244,266</u>
Total liabilities and fund balance	<u>\$ 282,614</u>	<u>\$ 171,041</u>	<u>\$ 73,124</u>	<u>\$ 31,683</u>	<u>\$ 701,092</u>	<u>\$ 43,234</u>	<u>\$ 1,302,788</u>

**CITY OF FERNDAL, MICHIGAN**  
**Combining Statement of Revenues, Expenditures**  
**and Changes in Fund Balances**  
**Non-Major Governmental Funds**  
**For the Year Ended June 30, 2004**

	Special Revenue						Total Nonmajor Governmental Funds
	Local Street	Drug Forfeiture	Community Development Block Grant	Library	Public Improvement	SMART Taxi Subsidy	
<b>Revenues</b>							
Intergovernmental							
Federal	\$ -	\$ 17,745	\$ 127,840	\$ -	\$ -	\$ -	\$ 145,585
State	364,036	-	-	19,257	-	67,561	450,854
Charges for services	-	-	-	-	-	5,788	5,788
Fines and forfeitures	-	104,290	-	31,682	-	-	135,972
Investment earnings	2,686	1,440	470	-	4,677	172	9,445
Other	-	-	-	-	1,015	-	1,015
Total revenues	366,722	123,475	128,310	50,939	5,692	73,521	748,659
<b>Expenditures</b>							
Current:							
General government	-	-	-	-	-	66,685	66,685
Public safety	-	21,807	-	-	-	-	21,807
Highways and streets	481,859	-	-	-	-	-	481,859
Community and economic development	-	-	48,533	-	108,943	-	157,476
Total expenditures	481,859	21,807	48,533	-	108,943	66,685	727,827
Revenues over (under) expenditures	(115,137)	101,668	79,777	50,939	(103,251)	6,836	20,832
<b>Other financing sources (uses)</b>							
Transfers in	-	-	-	-	200,000	-	200,000
Transfers out	-	(85,949)	(79,423)	(50,939)	-	-	(216,311)
Total other financing sources (uses)	-	(85,949)	(79,423)	(50,939)	200,000	-	(16,311)
Net change in fund balances	(115,137)	15,719	354	-	96,749	6,836	4,521
Fund balances, beginning of year	374,314	154,275	72,770	-	604,343	34,043	1,239,745
<b>Fund balances, end of year</b>	<u>\$ 259,177</u>	<u>\$ 169,994</u>	<u>\$ 73,124</u>	<u>\$ -</u>	<u>\$ 701,092</u>	<u>\$ 40,879</u>	<u>\$ 1,244,266</u>

**CITY OF FERNDALE, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget and Actual**  
**Local Streets**  
**For the Year Ended June 30, 2004**

	<b>Budgeted Amounts</b>			<b>Actual</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>Over (Under) Final Budget</b>
<b>Revenues</b>				
State grants and reimbursements	\$ 340,298	\$ 340,298	\$ 364,036	\$ 23,738
Investment earnings	6,000	6,000	2,686	(3,314)
Total revenues	<u>346,298</u>	<u>346,298</u>	<u>366,722</u>	<u>20,424</u>
<b>Expenditures</b>				
Routine maintenance	383,648	361,751	424,960	63,209
Winter maintenance	-	30,000	47,299	17,299
Traffic service	<u>-</u>	<u>7,000</u>	<u>9,600</u>	<u>2,600</u>
Total expenditures	<u>383,648</u>	<u>398,751</u>	<u>481,859</u>	<u>83,108</u>
Net change in fund balances	(37,350)	(52,453)	(115,137)	(62,684)
Fund balance, beginning of year	<u>374,314</u>	<u>374,314</u>	<u>374,314</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u><u>\$ 336,964</u></u>	<u><u>\$ 321,861</u></u>	<u><u>\$ 259,177</u></u>	<u><u>\$ (62,684)</u></u>

**CITY OF FERNDALE, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget and Actual**  
**Drug Forfeiture**  
**For the Year Ended June 30, 2004**

	<b>Budgeted Amounts</b>			<b>Actual</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>Over (Under) Final Budget</b>
<b>Revenues</b>				
Intergovernmental				
Federal	\$ -	\$ -	\$ 17,745	\$ 17,745
Fines and forfeitures	50,000	85,000	104,290	19,290
Investment earnings	1,500	1,500	1,440	(60)
Total revenues	51,500	86,500	123,475	36,975
<b>Expenditures</b>				
Operating expenditures	30,500	30,500	21,807	(8,693)
Revenues over (under) expenditures	21,000	56,000	101,668	45,668
<b>Other financing sources (uses)</b>				
Transfers out	(85,949)	(85,949)	(85,949)	-
Net change in fund balances	(64,949)	(29,949)	15,719	45,668
Fund balance, beginning of year	154,275	154,275	154,275	-
<b>Fund balance, end of year</b>	<b>\$ 89,326</b>	<b>\$ 124,326</b>	<b>\$ 169,994</b>	<b>\$ 45,668</b>

**CITY OF FERNDALE, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget and Actual**  
**Community Development Block Grant**  
**For the Year Ended June 30, 2004**

	<b>Budgeted Amounts</b>			<b>Actual Over (Under)</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>Final Budget</b>
<b>Revenues</b>				
Intergovernmental:				
Federal	\$ 159,229	\$ 159,229	\$ 127,840	\$ (31,389)
Investment earnings	1,420	1,420	470	(950)
Total revenues	160,649	160,649	128,310	(32,339)
<b>Expenditures</b>				
Operating expenditures	55,920	55,920	48,533	(7,387)
Revenues over (under) expenditures	104,729	104,729	79,777	(24,952)
<b>Other financing sources (uses)</b>				
Transfers out	(104,729)	(104,729)	(79,423)	25,306
Net change in fund balances	-	-	354	354
Fund balance, beginning of year	72,770	72,770	72,770	-
<b>Fund balance, end of year</b>	<b>\$ 72,770</b>	<b>\$ 72,770</b>	<b>\$ 73,124</b>	<b>\$ 354</b>

**CITY OF FERNDALE, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget and Actual**  
**Library**  
**For the Year Ended June 30, 2004**

	<b>Budgeted Amounts</b>			<b>Actual Over (Under)</b>
	<b><u>Original</u></b>	<b><u>Final</u></b>	<b><u>Actual</u></b>	<b><u>Final Budget</u></b>
<b>Revenues</b>				
Intergovernmental:				
State	\$ 17,348	\$ 17,348	\$ 19,257	\$ 1,909
Fines and forfeitures	36,793	36,793	31,682	(5,111)
Total revenues	54,141	54,141	50,939	(3,202)
 <b>Other financing sources (uses)</b>				
Transfers out	(54,141)	(54,141)	(50,939)	3,202
 Net change in fund balances	-	-	-	-
 Fund balance, beginning of year	-	-	-	-
 <b>Fund balance, end of year</b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>

**CITY OF FERNDALE, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget and Actual**  
**Public Improvement**  
**For the Year Ended June 30, 2004**

	<b>Budgeted Amounts</b>			<b>Actual Over (Under) Final Budget</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	
<b>Revenues</b>				
Investment earnings	\$ 8,000	\$ 8,000	\$ 4,677	\$ (3,323)
Other revenue	-	-	1,015	1,015
Total revenues	<u>8,000</u>	<u>8,000</u>	<u>5,692</u>	<u>(2,308)</u>
<b>Expenditures</b>				
Operating expenditures	93,929	93,929	13,422	(80,507)
Capital outlay	<u>200,000</u>	<u>200,000</u>	<u>95,521</u>	<u>(104,479)</u>
Total expenditures	<u>293,929</u>	<u>293,929</u>	<u>108,943</u>	<u>(184,986)</u>
Revenues over (under) expenditures	(285,929)	(285,929)	(103,251)	182,678
<b>Other financing sources (uses)</b>				
Transfers in	<u>250,000</u>	<u>200,000</u>	<u>200,000</u>	<u>-</u>
Net change in fund balances	(35,929)	(85,929)	96,749	182,678
Fund balance, beginning of year	<u>604,343</u>	<u>604,343</u>	<u>604,343</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u>\$ 568,414</u>	<u>\$ 518,414</u>	<u>\$ 701,092</u>	<u>\$ 182,678</u>

**CITY OF FERNDALE, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget and Actual**  
**SMART Taxi Subsidy**  
**For the Year Ended June 30, 2004**

	<b>Budgeted Amounts</b>			<b>Actual Over (Under)</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>Final Budget</b>
<b>Revenues</b>				
Intergovernmental:				
State	\$ 66,447	\$ 66,447	\$ 67,561	\$ 1,114
Charges for services	8,000	8,000	5,788	(2,212)
Investment earnings	500	500	172	(328)
Total revenues	<u>74,947</u>	<u>74,947</u>	<u>73,521</u>	<u>(1,426)</u>
<b>Expenditures</b>				
Personal services	43,268	43,268	46,839	3,571
Operating expenditures	<u>24,235</u>	<u>24,235</u>	<u>19,846</u>	<u>(4,389)</u>
Total expenditures	<u>67,503</u>	<u>67,503</u>	<u>66,685</u>	<u>(818)</u>
Net change in fund balances	7,444	7,444	6,836	(608)
Fund balance, beginning of year	<u>34,043</u>	<u>34,043</u>	<u>34,043</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u>\$ 41,487</u>	<u>\$ 41,487</u>	<u>\$ 40,879</u>	<u>\$ (608)</u>



**CITY OF FERNDALE, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget and Actual**  
**Debt Service Fund**  
**For the Year Ended June 30, 2004**

	<b>Budgeted Amounts</b>			<b>Actual</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>Over (Under) Final Budget</b>
<b>Revenues</b>				
Property taxes	\$ 3,507,909	\$ 3,511,675	\$ 3,510,025	\$ (1,650)
Investment earnings	5,000	5,000	4,254	(746)
Total revenues	3,512,909	3,516,675	3,514,279	(2,396)
<b>Expenditures</b>				
Principal	2,185,000	2,185,000	1,155,014	(1,029,986)
Interest	1,398,013	1,398,013	717,977	(680,036)
Other	16,000	66,233	4,046	(62,187)
Total expenditures	3,599,013	3,649,246	1,877,037	(1,772,209)
Revenues over (under) expenditures	(86,104)	(132,571)	1,637,242	1,769,813
<b>Other financing sources (uses)</b>				
Transfer out	-	-	(1,710,022)	(1,710,022)
Net change in fund balance	(86,104)	(132,571)	(72,780)	59,791
Fund balance, beginning of year	615,713	615,713	615,713	-
<b>Fund balance, end of year</b>	<b>\$ 529,609</b>	<b>\$ 483,142</b>	<b>\$ 542,933</b>	<b>\$ 59,791</b>

**CITY OF FERNDALE, MICHIGAN**  
**Combining Statement of Net Assets**  
**Internal Service Funds**  
**June 30, 2004**

	<u>Vehicle and Equipment Maintenance</u>	<u>Worker's Compensation</u>	<u>Total</u>
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 139,272	\$ 583,473	\$ 722,745
Accounts receivable	-	143	143
Inventory	145,695	-	145,695
Prepaid expenses	-	16,000	16,000
Total current assets	<u>284,967</u>	<u>599,616</u>	<u>884,583</u>
Noncurrent assets:			
Capital assets	4,966,257	-	4,966,257
Less accumulated depreciation	<u>(3,546,431)</u>	<u>-</u>	<u>(3,546,431)</u>
Total noncurrent assets	<u>1,419,826</u>	<u>-</u>	<u>1,419,826</u>
Total assets	<u>1,704,793</u>	<u>599,616</u>	<u>2,304,409</u>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	44,743	149,105	193,848
Accrued liabilities	<u>3,645</u>	<u>-</u>	<u>3,645</u>
Total current liabilities	<u>48,388</u>	<u>149,105</u>	<u>197,493</u>
<b>Net Assets</b>			
Investment in capital assets, net of related debt	1,419,826	-	1,419,826
Unrestricted	<u>236,579</u>	<u>450,511</u>	<u>687,090</u>
Total net assets	<u>\$ 1,656,405</u>	<u>\$ 450,511</u>	<u>\$ 2,106,916</u>

**CITY OF FERNDALE, MICHIGAN**  
**Combining Statement of Revenues, Expenses**  
**and Changes in Fund Net Assets**  
**Internal Service Funds**  
**For the Year Ended June 30, 2004**

	<b>Vehicle and Equipment Maintenance</b>	<b>Worker's Compensation</b>	<b>Total</b>
<b>Operating revenues</b>			
Charges for services	\$ 953,486	\$ 128,804	\$ 1,082,290
Miscellaneous fees	10,847	-	10,847
Total operating revenues	<u>964,333</u>	<u>128,804</u>	<u>1,093,137</u>
<b>Operating expenses</b>			
Personal services	177,595	-	177,595
General and administrative	477,137	38,515	515,652
Depreciation	335,973	-	335,973
Benefit and medical payments	-	223,277	223,277
Total operating expenses	<u>990,705</u>	<u>261,792</u>	<u>1,252,497</u>
Operating income (loss)	<u>(26,372)</u>	<u>(132,988)</u>	<u>(159,360)</u>
<b>Non-operating revenues</b>			
Investment earnings	-	4,565	4,565
Gain on sale of fixed assets	10,000	-	10,000
Total non-operating revenues	<u>10,000</u>	<u>4,565</u>	<u>14,565</u>
Change in net assets	(16,372)	(128,423)	(144,795)
Net assets, beginning of year	<u>1,672,777</u>	<u>578,934</u>	<u>2,251,711</u>
<b>Net assets, end of year</b>	<u>\$ 1,656,405</u>	<u>\$ 450,511</u>	<u>\$ 2,106,916</u>

**CITY OF FERNDALE, MICHIGAN**  
**Statement of Cash Flows**  
**Internal Service Funds**  
**For the Year Ended June 30, 2004**

	<b>Vehicle and Equipment Maintenance</b>	<b>Worker's Compensation</b>	<b>Total</b>
<b>Cash flows from operating activities</b>			
Cash received from interfund services	\$ 964,333	\$ 128,661	\$ 1,092,994
Cash payments to employees	(176,808)	-	(176,808)
Cash payments to suppliers for goods and services	(469,420)	(170,440)	(639,860)
Net cash provided by (used in) operating activities	318,105	(41,779)	276,326
<b>Cash flows from investing activities</b>			
Investment income	-	4,565	4,565
<b>Cash flows from capital and related financing activities</b>			
Purchase of capital assets	(217,227)	-	(217,227)
Proceeds from sale of capital assets	10,000	-	10,000
Net cash used in capital and related financing activities	(207,227)	-	(207,227)
Net increase (decrease) in cash and cash equivalents	110,878	(37,214)	73,664
Cash and cash equivalents, beginning of year	28,394	620,687	649,081
<b>Cash and cash equivalents, end of year</b>	<b>\$ 139,272</b>	<b>\$ 583,473</b>	<b>\$ 722,745</b>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>			
Operating loss	\$ (26,372)	\$ (132,988)	\$ (159,360)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:			
Depreciation	335,973	-	335,973
Changes in assets and liabilities:			
Accounts receivable	-	(143)	(143)
Inventories	(9,212)	-	(9,212)
Prepaid items	-	(9,000)	(9,000)
Accounts payable	16,929	100,352	117,281
Accrued liabilities	787	-	787
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 318,105</b>	<b>\$ (41,779)</b>	<b>\$ 276,326</b>

# CITY OF FERNDALE, MICHIGAN

## Combining Statement of Net Assets

### Pension Trust Funds

**June 30, 2004**

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	<b>Employees Retirement System Fund</b>	<b>Policemen and Firemen Retirement System Fund</b>	<b>Post- Retirement Healthcare Fund</b>	<b>Total</b>
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 191,961	\$ 661,131	\$ 2,626,977	\$ 3,480,069
Accrued interest receivable	70,163	150,315	1,785	222,263
Investments				
Common stock	11,403,761	22,817,096	-	34,220,857
Corporate bonds	6,457,663	12,954,539	-	19,412,202
Total investments	<u>17,861,424</u>	<u>35,771,635</u>	<u>-</u>	<u>53,633,059</u>
Total assets	<u>18,123,548</u>	<u>36,583,081</u>	<u>2,628,762</u>	<u>57,335,391</u>
<b>LIABILITIES</b>				
Liabilities				
Accounts payable	<u>-</u>	<u>1,163</u>	<u>-</u>	<u>1,163</u>
<b>NET ASSETS</b>				
Held in trust for pension benefits and other purposes	<u>\$ 18,123,548</u>	<u>\$ 36,581,918</u>	<u>\$ 2,628,762</u>	<u>\$ 57,334,228</u>

**CITY OF FERNDAL, MICHIGAN**  
**Combining Statement of Changes in Net Assets**  
**Pension Trust Funds**  
**For the Year Ended June 30, 2004**

	<b>Employees Retirement System Fund</b>	<b>Policemen and Firemen Retirement System Fund</b>	<b>Post- Retirement Healthcare Fund</b>	<b>Total</b>
<b>Additions</b>				
Contributions				
Employer contributions	\$ -	\$ -	\$ 571,535	\$ 571,535
Plan member contributions	448	133,595	-	134,043
Total contributions	448	133,595	571,535	705,578
Investment income				
Net appreciation in fair value	1,706,586	3,398,797	-	5,105,383
Interest	379,908	759,399	20,785	1,160,092
Dividends	220,193	442,122	-	662,315
Total investment income	2,306,687	4,600,318	20,785	6,927,790
Less investment expense	(79,349)	(134,954)	-	(214,303)
Net investment income	2,227,338	4,465,364	20,785	6,713,487
<b>Total additions</b>	<b>2,227,786</b>	<b>4,598,959</b>	<b>592,320</b>	<b>7,419,065</b>
<b>Deductions</b>				
Benefits	1,154,777	2,218,405	-	3,373,182
Administrative expenses	13,832	25,807	2,500	42,139
<b>Total deductions</b>	<b>1,168,609</b>	<b>2,244,212</b>	<b>2,500</b>	<b>3,415,321</b>
Net increase in plan net assets	1,059,177	2,354,747	589,820	4,003,744
Net assets held in trust for pension benefits - beginning of year	17,064,371	34,227,171	2,038,942	53,330,484
Net assets held in trust for pension benefits - end of year	<u>\$ 18,123,548</u>	<u>\$ 36,581,918</u>	<u>\$ 2,628,762</u>	<u>\$ 57,334,228</u>

# CITY OF FERNDALE, MICHIGAN

## Combining Balance Sheet

### Agency Funds

June 30, 2004

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	<b>43rd District Court</b>	<b>Other</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	<u>\$ 110,967</u>	<u>\$ 129,874</u>	<u>\$ 240,841</u>
<b>LIABILITIES</b>			
Liabilities			
Accounts payable	\$ -	\$ 415	\$ 415
Other liabilities	<u>110,967</u>	<u>129,459</u>	<u>240,426</u>
Total liabilities	<u>\$ 110,967</u>	<u>\$ 129,874</u>	<u>\$ 240,841</u>

**CITY OF FERNDAL, MICHIGAN**  
**Downtown Development Authority**  
**Statement of Net Assets and**  
**Governmental Fund Balance Sheet**  
**June 30, 2004**

	<b>Governmental Fund</b>	<b>Adjustments</b>	<b>Statement of Net Assets</b>
<b>Assets</b>			
Taxes receivable	\$ 59,545	\$ -	\$ 59,545
Less allowance for uncollectables	(49,657)	-	(49,657)
Due from primary government	-	4,458	4,458
Capital assets:			
Equipment	-	51,857	51,857
Vehicles	-	37,103	37,103
Infrastructure	-	1,194,356	1,194,356
Less: accumulated depreciation	-	(538,555)	(538,555)
 Total assets	 <u>\$ 9,888</u>	 <u>749,219</u>	 <u>759,107</u>
<b>Liabilities:</b>			
Accounts payable	\$ 60,713	-	60,713
Accrued liabilities	1,880	-	1,880
Due to primary government	8,953	-	8,953
Deferred revenue	9,888	(9,888)	-
Total Liabilities	81,434	(9,888)	71,546
<b>Fund Balance/Net Assets:</b>			
Undesignated (deficit)	(71,546)	71,546	-
Total liabilities and fund balance	<u>\$ 9,888</u>		
<b>Net Assets:</b>			
Invested in capital assets, net of related debt		744,761	744,761
Unrestricted		(57,200)	(57,200)
Total net assets		<u>\$ 687,561</u>	<u>\$ 687,561</u>



**CITY OF FERNDALE, MICHIGAN**  
**Downtown Development Authority**  
**Reconciliation of Governmental Fund Balance Sheet**  
**to the Statement of Activities**  
**June 30, 2004**

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Fund balance - Downtown Development Authority (deficit)	\$ (71,546)
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets	1,283,316
Deduct: accumulated depreciation	(538,555)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add: deferred revenues	9,888
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An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets

Add: net assets of governmental activities accounted for in the internal service fund	<u>4,458</u>
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Net assets of component unit	<u><u>\$ 687,561</u></u>
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**CITY OF FERNDAL, MICHIGAN**  
**Downtown Development Authority**  
**Statement of Activities and**  
**Governmental Fund Revenues, Expenditures, and**  
**Changes in Fund Balance**  
**For the Year Ended June 30, 2004**

	<b>Governmental Fund</b>	<b>Adjustments</b>	<b>Statement of Activities</b>
<b>Revenues</b>			
Property taxes	\$ 348,872	\$ (1,605)	\$ 347,267
Intergovernmental:			
State grant	4,058	-	4,058
Contributions	9,907	-	9,907
Investment earnings	676	-	676
	<u>363,513</u>	<u>(1,605)</u>	<u>361,908</u>
<b>Total revenues</b>	<u>363,513</u>	<u>(1,605)</u>	<u>361,908</u>
<b>Expenditures</b>			
Personal services	110,391	-	110,391
Operating services	286,890	656	287,546
Capital outlay	120,397	(120,397)	-
Depreciation expense	-	92,967	92,967
	<u>517,678</u>	<u>(26,774)</u>	<u>490,904</u>
<b>Total expenditures</b>	<u>517,678</u>	<u>(26,774)</u>	<u>490,904</u>
Excess (deficiency) of revenues over (under) expenditures/ change in net assets	(154,165)	25,169	(128,996)
Beginning fund balance/net assets	<u>82,619</u>	<u>733,938</u>	<u>816,557</u>
Ending fund balance/net assets	<u>\$ (71,546)</u>	<u>\$ 759,107</u>	<u>\$ 687,561</u>

**CITY OF FERNDALE, MICHIGAN**  
**Downtown Development Authority**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Change in Fund Balance**  
**to the Statement of Activities**  
**For the Year Ended June 30, 2004**

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Net change in fund balances - component unit	\$ (154,165)
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: purchases of capital assets	120,397
Deduct: depreciation expense	(92,967)

An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. The net revenue (expense) of the fund attributable to those funds is reported with governmental activities.

Deduct: net operating loss from component unit activities in the internal service fund	(656)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

Deduct: net difference in deferred revenues	<u>(1,605)</u>
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Change in net assets of governmental activities	<u><u>\$ (128,996)</u></u>
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**REHMANN ROBSON**

*Certified Public Accountants*

*A member of THE REHMANN GROUP*

*An Independent Member of Baker Tilly International*

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON  
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

October 1, 2004

To the Honorable Mayor and Council  
City of Ferndale, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of *City of Ferndale, Michigan* as of and for the year ended June 30, 2004, which collectively comprise the *City of Ferndale, Michigan's* basic financial statements and have issued our report thereon dated October 1, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether *City of Ferndale, Michigan's* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered *City of Ferndale, Michigan's* internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, Mayor and City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.